WASHINGTON—AND THE SECURITIES MARKET ★

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and BUSINESS ANALYST

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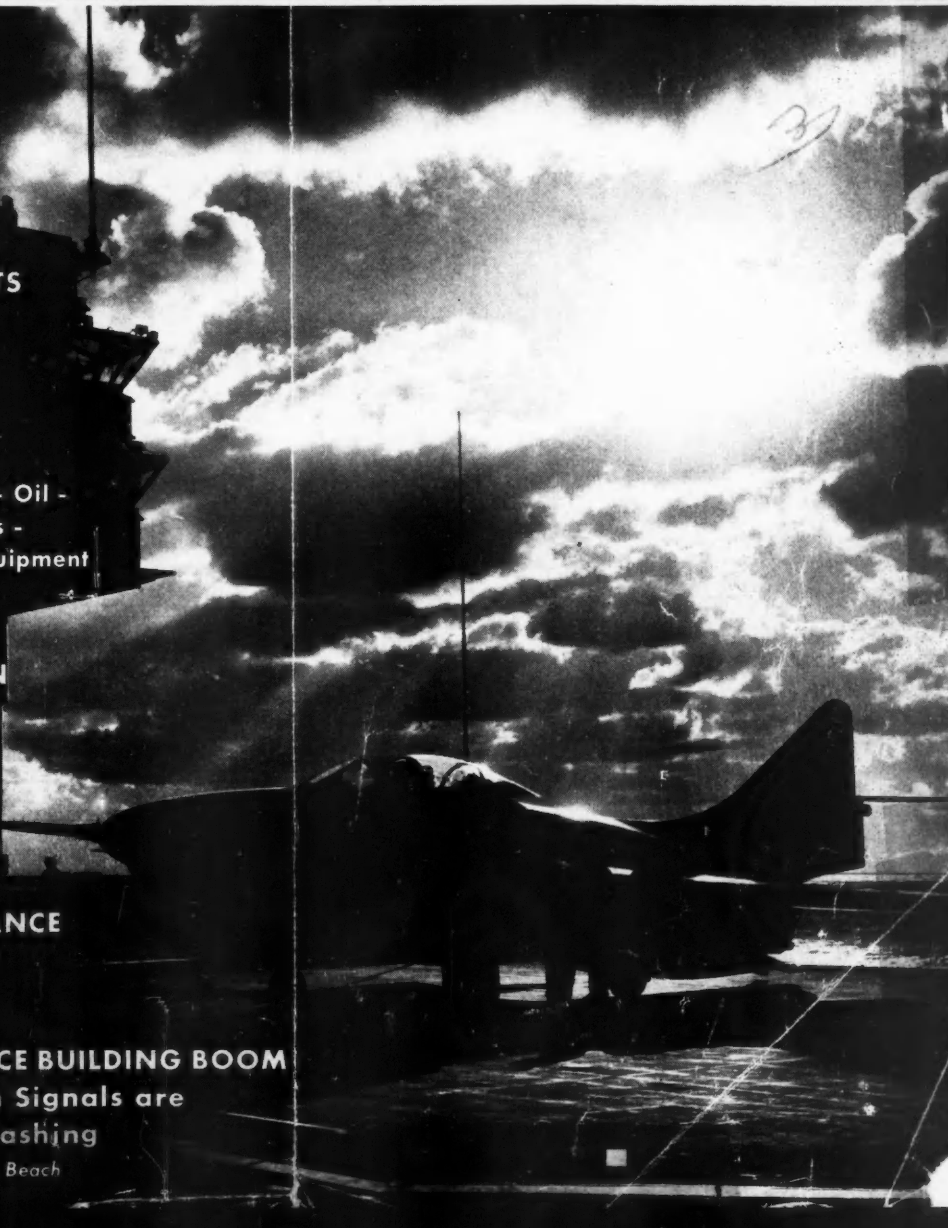

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By HAROLD M. EDELSTEIN

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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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THE MAGAZINE OF WALL STREET

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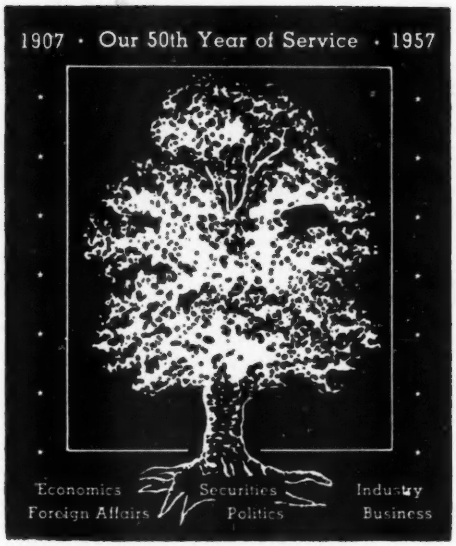


The Trend of Events

UNREASONING PANIC . . . Apropos of what is going on today is the old saw: "When in danger—when in doubt—run in circles—yell—and shout".

Could there be a more apt description of the reaction of some of our newspapers and government officials to the recent launching of Sputnik and all it implies?

In the first place, I do not believe Russia intends to go to war—because she has already won so much more easily by propaganda, infiltration and economic warfare. With such successful methods to rely on, why should she try anything else—especially anything as dangerous as a hot war?

And when you look around the world and notice the havoc she is causing in Indonesia—her latest successes at the Afro-Asian Conference—the manner in which she has advanced her position in the Middle East—her winning of the uncommitted countries both through loans and political intrigue—her latest suggestion to tie in with the Socialists of every country because she knows that eventually she will oust them—it is apparent that this is the way she is going to fight. And, she is using her prestige, won through the successful launching of Sputnik, to disrupt our plans and our thinking. Her propaganda was smart enough to disavow the launching of the manned rocket because she felt the news of its failure would tilt the laurels won by Sputnik.

The Russians have developed bluffing to such a fine art that I wonder whether they are really as far ahead as they insinuate they are. I remember the automobile they showed at the Paris Exhibit which had no engine—the fuss they made over their great subway when it consisted only of an ornamental station—and the thin plaster columns in their bank which they were trying to make us believe were made of marble—their photographs of potted palms in the dining sections of their factories, which, on inspection, were made of papier-mache.

The way to beat the Russians is to call their bluff—and they will shrug their shoulders and chuckle—and delight in the satisfaction of having played a joke on us.

Europeans are surprised at the panic in this country. In typical fashion they are telling one amusing story after another at our expense—and about Russia too. In the latest one making the rounds—the beep of the Sputnik is saying: "I will break into pieces—I will even burn up—but I won't go back to Russia". In the same vein, maybe that is why Mr. Khrushchev maliciously accused us of secreting the pieces of his rocket, which he declared fell into Alaska—although he knew full well that the possibilities were more likely that the rocket or the Sputnik itself would disintegrate before it reached the earth.

Actually we don't know what Russia launched or whether she launched a satellite. We only have her word for it. She may have timed

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and business men. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

her announcement with some astronomical phenomena. As far as the beep-beep is concerned, that may have been a hoax, because only the other day a spokesman for Sweden's Enkoping station said that the beep-beep was heard on the Sputnik wave length for hours, but was finally traced to a "typical Russian frequency shift teleprinted transmitter". And the spokesman said it sounded quite like the Sputnik. Similar reports came from West Germany, Finland and Norway—and all the monitors said that the beep-beep was on or around the Sputnik wave length. It was even heard in Ohio on Saturday.

What I really believe is that the Russian hullaballoo is a tricky technique with which they are creating a fear psychology in the country, and while our attention is diverted into outer space they are busy sewing up economic ties with the uncommitted countries.

THE CHANCELLOR REVOLTS . . . "Hue and cry" is a British custom dating back to the middle ages, which served as an official means for rousing the citizenry to impending danger or affairs of exceptional moment. Thus, despite his unprecedented resignation last week as Chancellor of the Exchequer, Peter Thorneycroft's alarum over the real danger of further inflation is deeply rooted in British tradition.

Certainly, a "hue and cry" must be raised against the mounting cost of government and the seemingly never-ending upward trend of wages. It is refreshing therefore to find that the proponents of fiscal responsibility, in any country, now have a distinguished spokesman in addition to our now ex-Secretary of the Treasury, George M. Humphrey, who left his post less precipitantly than Mr. Thorneycroft, but for a similar reason. He said, in his now famous words, "if we go on this way we will run into a depression that will curl your hair".

Undoubtedly the cabinet split has hurt the Conservative party in England, even though a quick attempt was made to force the rift underground. And we can expect the Labor Party to attempt to make political capital out of the dispute and endeavor to bring the government down before its time expires. But this seems secondary to the warning Mr. Thorneycroft issued, that unless government expenditures are held down the effect on sterling and on the entire British economy will be disastrous.

The world is undoubtedly in a precarious financial position, and the menace of economic warfare makes greater conservatism necessary to prevent insolvency. But, with the political situation so mixed and uncertain, compromises will be demanded of the exponents of a sound fiscal policy—a policy that is certain to be continued in Britain, which has too much at stake to risk further serious weakness of the pound.

Fortunately, Mr. Amory, Thorneycroft's successor is a man who can be expected to carry on much of the former chancellor's policies and keep British finances on as even a keel as possible. This does not temper the enormity of Mr. Thorneycroft's extraordinary action, however. He served notice forcefully that fiscal responsibility today is paramount.

With the great mass of nations tied to either the dollar or sterling, the situation today calls for financial genius of the first order to avoid serious deterioration.

MEN AND MICE . . . Lester B. Pearson hit the nail on the head when he intimated that the world is committing suicide—that men are behaving like pigmies—and that before they get through they will have reduced the world to a rock hurtling through space.

Judging by man's behavior this may have happened many times in the life of this earth, during its millions of years of existence.

We who are living on this earth today can only guess at what happened. The comparisons we make must be between our times and the great civilizations of recorded history—the rise and fall of great nations—the cruel and hopeless aftermath—and the overweening ambition for power and wealth of a few men who tore down great cultural civilizations. And it is fortunate for us that the glory that was Greece and the grandeur that was Rome still lives for us in their unequalled philosophers—their literature—their art. Everything else has been buried in the ruins.

Our world is at the cross-roads today. Maybe it is because men design their civilizations on the basis of material success instead of building them on character and humanity. It has been said that "love of money is the root of all evil", but I would like to change that to say that "the lust for power is the greater evil", and has brought disaster again and again to whole peoples—so that today only remnants remain of great and powerful nations, and many of them are now practically extinct.

Conquests have always been made by the "have-nots" when the "haves" became too soft; when they were too contented and complacency had set it. When they became more interested in "living and let live" rather than in new conquests.

It is precisely this state of softness and complacency that we are experiencing today and which is encouraging Russia to attack us. There is only one thing, however, the Reds have overlooked regarding the U.S.A.—and that is we are only several generations away from being a pioneer people—that we have not reached maturity—and we are still in the process of building—that our people are extremely resourceful and inventive—and that we are now thoroughly awakened to the danger that Russia threatens.

Today the madmen are again on the march. Not content with this earth—they seek the conquest of the moon and the stars. And it makes me think of the old fable of the fisherman who spared the life of the great fish he caught in his net when it offered to grant his every wish. His first wish was for a comfortable house to replace his hut, but his wife, dissatisfied, demanded in turn a fine mansion with servants—and then a palace and a kingdom. And then, still discontented, she sent her husband back to ask the fish for power to rule the sun, the moon and the stars so it would never rain at her garden parties. By this time the fish was fed up with the greed and in his rage sent the fisherman and his wife back to their hovel.

I wonder whether that isn't what is going to happen to the short-sighted men in the Kremlin, who are just greedily reaching for the moon. But the unfortunate thing in the case of the Kremlin is that they may pull the moon and the stars around their ears and the world will go down with them.

As I See It!

By CHARLES BENEDICT

WHY NOT TAX LABOR BOSSES FOR NATIONAL DEFENSE?

With screaming headlines calling for increased defense spending, up to now the only suggestions made for paying the bill has either been nebulous talk about cutting down "non-essentials" –or unrealistic economic and fiscal plans that throw caution to the winds.

Take the group that would abandon all hope of a balanced budget–scrap the debt ceiling–and use deficit financing regardless of what it led to. Or – the advocates of increasing taxes in the hope of maintaining government revenue – without regard to the need for maintaining consumer spending during this recession. Or – the third group, which declares that the right way would be to cut taxes in an experiment to increase consumer spending – although it is bound to cut government revenue–accelerate the need for deficit financing–and impair the value of the dollar.

It seems politics stands in the way to the approach of the several realistic steps that can be taken toward solving our financial problems. One would be to clearly define "non-essentials" and act firmly to cut them down. Another would call a halt to the mass of subsidies and other give-aways that are sapping our financial strength, and which is perpetuating an abuse that has saddled each generation since World War I with a debt burden that may in time break their spirits as well as their backs. And third–an audit of $250 billions in government-owned property to see what can be sold to make funds available for defense needs. At the same time, the sale of this property to private industry would open new sources of taxable revenue for the government.

And, if the government would go ahead with the contemplated labor legislation which would place the unions under the Insurance and Banking Laws, making their income and their profits taxable, another important source of government revenue would be provided to help balance the budget.

By the Sweat of His Brow

—Justus in The Minneapolis Star

In dues alone the unions are collecting annually well over a billion dollars–and that is a conservative figure. For the right-to-work it taxes 17,000,000 union members at an estimated rate of $60 a year. In addition, the Unions have a huge income from capital investments–and having secured a status as a non-profit organization, no taxes are paid on these enormous sums. As a matter of fact, union income is so great that there is no need whatever for them to amass such huge funds. They can readily reduce dues to a nominal payment of 50¢ to $1 a year without any hardship whatever. This would release over a billion dollars to the consumers of the United States, which would be equivalent to a very substantial tax cut, and would be given directly to the working men who would spend the money.

There has been a great deal of talk for a long time about more realistic labor legislation, which has fallen by the wayside again and again due to political pressure. Unions today are a monopoly – and are "big business" too. And despite the proof of gangsterism and embezzlement of funds, no action has yet been taken in Congress to force the unions to conform to good business practices. This is particularly deplorable in the light of the proven malfeasance in office of union officers and their loose handling of union funds.

The control of the worker by the union leaders has brough criticism of our system abroad and disbelief as to whether the proclaimed freedom of the individual in the United States is really true. And amazement has been expressed as to how our people can possibly operate in an atmosphere of terror and intimidation by a very few individuals who exercise total control of their livelihood, and still be considered free men.

The situation calls (*Please turn to page* 552)

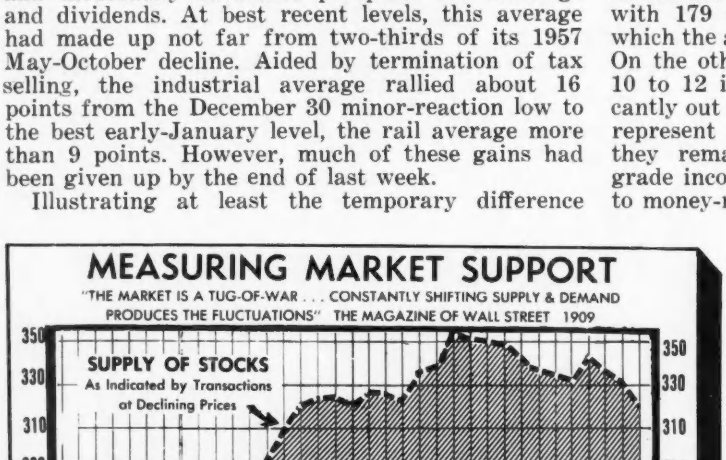
Washington—And The Securities Market

In the President's program, as revealed so far, there is no surprise. The market remains dominated by investment uncertainty and caution. Acceleration of the business recession brings its end nearer, but generation of a new expansion cycle may take some time. A generally conservative, selective policy in portfolio management remains in order.

By A. T. MILLER

The stock price averages remain in an indecisive phase of trading-range fluctuation, with the exception of the utility list. The latter has edged persistently and fairly steadily upward for some time, in line with further shrinkage in bond yields and moderately favorable prospects for earnings and dividends. At best recent levels, this average had made up not far from two-thirds of its 1957 May-October decline. Aided by termination of tax selling, the industrial average rallied about 16 points from the December 30 minor-reaction low to the best early-January level, the rail average more than 9 points. However, much of these gains had been given up by the end of last week.

Illustrating at least the temporary difference made immediately by relief from tax selling, an average of only about 5 new 1957-1958 lows has been recorded daily by individual stocks from the turn of the year up to this writing, against 65 on December 31, even though the industrial average rallied nearly 4 points in that session; and compared with 179 in the December 30 trading session, in which the average receded little more than one point. On the other hand, the new highs—recently around 10 to 12 issues per session—have not been significantly out of line with December performance; they represent a tiny proportion of the stock list; and they remain principally confined to investment-grade income stocks which are partially responsive to money-rate factors.



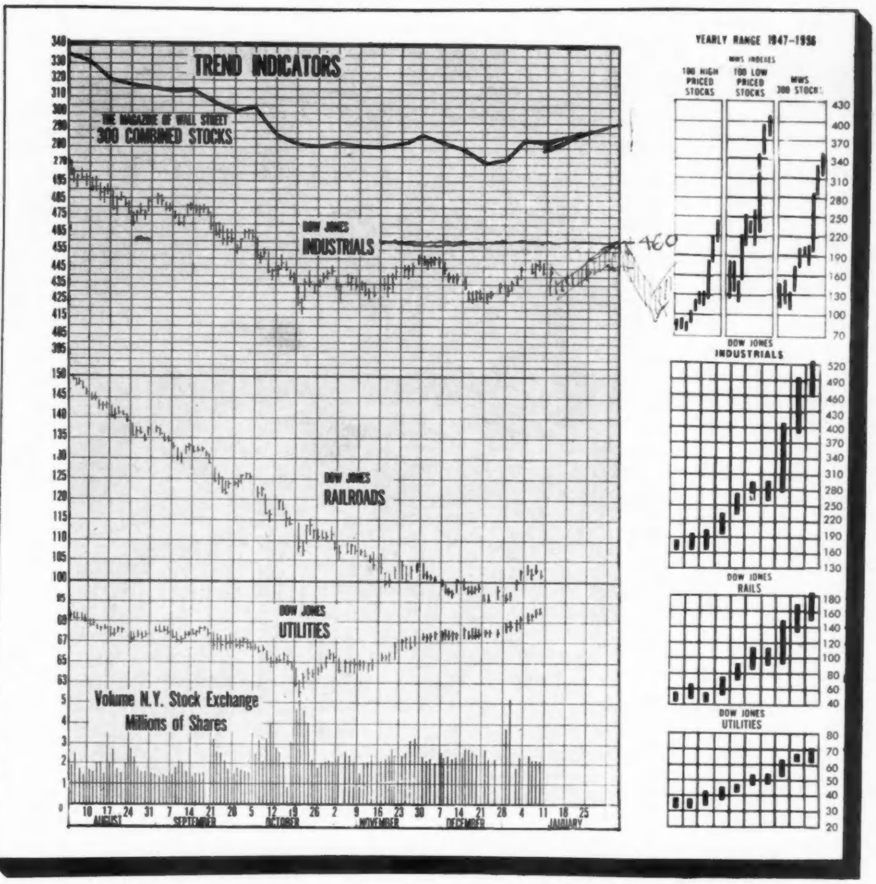
Where Do We Go Now!

For the industrial list, the downward trend has been more or less suspended for about two and a half months; for rails, only about three weeks. Some observers think ("guess" would be a better word) that the lows recorded October 22 by industrials, and December 24 by rails, should hold. Others view it as a 50-50 possibility. We still say: Wait and see at this uncertain stage.

In an environment of continuing and accelerated business recession, with the general run of stocks by no means down to any bargain-counter level, we are unable to reason that the start of a new bull market is already in formation. If that is correct, here are the possibilities: (1) some limited near-term extension of the intermediate recovery, although the immediate technical evidence is unpromising; (2) maintenance of the recent trading range for a further time; (3) a test and possible breaking of the prior lows by or before early Spring. Again we say: wait and see. Meanwhile, only a fairly small minority of income stocks and special-situation equities appear sufficiently attractive to us to invite confident buying.

If the industrial average established a lasting low in October, it must be noted that it would represent the highest bear-market bottom, measured by dividend yields and their relation to

bond yields, ever seen. In that case, upside possibilities could hardly be broad, for it would take no great advance to put the list back again to a level of over-valuation. But while the present case for the bull side is dubious, we would avoid dogmatic bearishness and keep an open mind in watching events unfold in nearby weeks and months. The recession is moving rapidly. If rapid enough, the worst of it possibly could be seen within the present quarter, followed by slower adjustment for a while and then by flattening out possibly over a period of several or more months. That still leaves the timing and scope of any significant upturn conjectural. Meanwhile, a spill of some proportions in stock prices could make quite a difference and create buying opportunities.



The market has usually bottomed ahead of business, although by widely varying intervals of time. It was six months ahead of the low for the production index at its September, 1953, bottom, an unusually long lead; one month ahead at its June, 1949, bottom; two months ahead at its March, 1938 bottom.

In the present instance, the index of production made a peak of 147 in December, 1956. As late as August, the net decline in eight months was only 2 points to 145; but in the next three months it fell 6 points to 139, with half of that in November alone, according to preliminary figures. Judging by the recent course of steel production, automobile output and other key indicators, the index probably fell further in December to a level around 136. In the week-to-week industrial news, indications of easing continue. Hence, the production index might be down to the 132-130 area by February or March, at which time the total shrinkage would approximate or slightly exceed those of the 1948-1949 and 1953-1954 recessions.

So it might be that the recession is not far from its intermediate low, even should it moderately exceed our last two previous ones in scope. But we do not see basis for a Spring or Summer business revival; and basis for a late-1958 upturn, centering mainly in Government spending and possible replenishment of business inventories, is not too strongly defined at this time. With no surge of consumer buying in sight, and no improvement in business expansion outlays in prospect for some time to come, a flat bottom of some duration is quite possible, if not probable; and it would be nothing new.

The 1953-1954 Experience

The production index reached a peak of 137 in July, 1953, falling to a low of 123 in March, 1954. But thereafter it was stymied in a range of 123-124 for six months through September. Concerned about inflation, the Federal Reserve had begun to tighten money in late 1952 and early 1953. Responding to this, the industrial stock average declined 13% in 1953 from early January into September. By June, 1953, the Reserve had begun a sharp about-face toward easy money. By the time the production index reached bottom in March, 1954, the stock average was up around 19%. By the time production really started to rise in October, 1954, the stock average was up more than 40%. Thus, the latter's direction was in line with the production trend only for a few weeks in the summer of 1953 and the fourth quarter of 1954.

However, the situation is not the same today. Easy money, which was used to reverse the deflation, is unlikely to have the stimulating effect that it did at that time for various reasons. In addition, in July 1953 the Korean war ended and pent up consumer buying was released, which is not the case today. The market then, too, had the advantage of the ending of the excess profits tax. Then there are other factors today, such as the tapering off of plant expansion—and the intensification of political and economic warfare with Russia, which is reaching a climax at this moment. (*Please turn to page* 550)

THE STATE OF THE UNION

By **JAMES J. BUTLER**

After months of public wrestling with questions posed by Russia's progress in the field of outer space exploration, relating it to this country's national security and economic health, it was expected that President Eisenhower's State of the Union message would suffer a degree of anti-climatic impact. There was no trace of such reaction.

Consciously or otherwise, the administration had prepared Congress and the public for what seems to be ahead. The probable size of the budget and its segments were known. Its brevity in terms of wordage, even some of the major quotations, were making the rounds on Capitol Hill 24 hours before Ike went to the lectern. Since the element of surprise was missing, interest seemed likely to center not so much on what would be said as on how it would be spoken.

In text and delivery, the message bore the marks of careful going over and re-writes. The President obviously realized that in addition to the national welfare he also was putting on the line his own claim to the right of leadership. Not political party leadership, but the functions and prerogatives of a president of all the people—and he rose to the occasion.

He was facing a Congress troubled and critical over reported lack of progress in defense and in diplomacy. In his sixth appearance to discuss the State of the Union he was meeting the tacit challenge to his superior judgment in matters military. More than ever before, Congress had made it clear that methods, as well as financing, would be determined with less attention to the President's constitutional position of Commander-in-Chief.

The President invited cooperation without surrendering any of his powers or delegating any of his duties.

"I am not here to justify the past, gloss over the problems of the present, or propose easy solutions for the future," he declared in the first minute of his address. "I am here to state what I believe to be right and what I believe to be wrong; and to propose action for correcting what I think wrong."

There appeared to be unity on the House floor that Ike was correct in warning against either overestimating our strength, or underestimating it: that the country today possesses as he put it, the world's most powerful deterrent, but must be alert to retain it, improve upon it.

The President thrilled the Congress with vigor-

ously spoken assurance: "They (our Navy and Air Force) present to any potential attacker who would unleash war upon the world the prospect of virtual annihilation of his own country . . . every informed government knows this. It is no secret."

Russia's present leadership in long-range ballistic missiles was conceded. But, said the President, that lead can be overcome before it is too late. The problem, he summed, is not our strength as of today, it is the necessity of action today to ensure tomorrow's safety.

There was a sidelight new to "State" messages. Most of the members of Congress were seeing the President in the flesh for the first time since his third serious illness. The question seemed to be on all lips and in every eye:

"What of his health?" Any trouble with a word, even a syllable, would be translated into strained meanings. None was more aware of that than the man who struggled to correct a speech impairment only weeks ago.

There was little the President said or recommended on the prime questions before Congress that he had not already said in "chin up" speeches. These had wisely been abandoned after the second attempt. What then remained to be said was fed to the public through press conferences, notably those of Secretary James C. Hagerty, and by the first string of military and fiscal experts. In the threshing of many weeks, highpointed by Vanguard's miss, the salient elements of approach were on the record, the dross of panic and partisan argument had been ground down. But Congress still was troubled. The President approached his chore with that knowledge uppermost in his mind.

If theatrics might be found in the "State" speech, it was the drama of lurking danger. In many ways the message was more precise than any of Ike's five earlier essays. And the President departed from the practice he picked up from his predecessors: this time he seemed to speak direct to his ultimate objective, the Congress, and not over the heads of the lawmakers to the listening or reading public. He offered no prefabricated solution to the riddle of Sputnik. That was to be found in an evolution to be worked out in the light of urgency, the capacity of men and machines to move with efficient speed, and the country's willingness to absorb costs while continuing to pursue an economy as close to normal as possible.

The President was pleading obliquely for approval of a budget—not detailed at that point, which would promote not only national security but also bolster the economy.

In the face of increasing unemployment and income drop, a carefully tooled financial program was foreseen by Ike as a force for stability and, eventually, for national growth. That thought underlies a $74 billion budget including $40 billion for defense.

Such an amount, while unheard of in other peacetime years, is less than $3 billion more than what Ike considered one year ago to be necessary to run the country—in a year of better-than-usual business, and one in which foreseeable defense requirements were 'way under what is accepted now as the minimum of safety.

The estimate is higher than the President would prefer. It is lower than many congressional leaders would have it. It is geared to create economic stabilizers by stepping up defense expenditures to the point and the hope of making 1958 a good business year, without imposing destructively high taxes. The President told Congress these things are possible: more and better defense, substantially greater mili-

PRESIDENT EISENHOWER'S EIGHT POINT PROGRAM

1. DEFENSE UNIFICATION

"I am not attempting today to pass judgment on the charge of harmful service rivalries. But one thing is sure. Whatever they are, America wants them stopped."

2. DEFENSE SPEED-UP

"Now the second major action item is the acceleration of the defense effort in particular areas affected by the fast pace of scientific and technological advance."

3. MUTUAL SECURITY

"We must continue to strengthen our mutual security efforts. . . . The fact is that no investment we make in our own security can pay us greater dividends than necessary amounts of economic aid to friendly nations."

4. EXTENSION OF TRADE AGREEMENTS ACT

"Both in our national interest, and in the interest of world peace, we must have a five-year extension of the trade agreements act —with broadened authority to negotiate."

5. EXCHANGE OF SCIENTIFIC INFORMATION

"It is highly important that the Congress enact the necessary legislation to enable us to exchange appropriate scientific and technical information with friendly countries."

6. RESEARCH AND EDUCATION

"In the area of education and research, I recommend a balanced program to improve our resources, involving an investment of about a billion dollars over a four-year period."

7. CUTTING NON-ESSENTIALS

"To provide for this extra effort for security, we must apply stern tests of priority to other expenditures, both military and civilian."

8. WORLD PEACE

"The world must stop the present plunge toward more and more destructive weapons of war, and turn the corner that will start our steps frmly on the path toward lasting peace."

tary and foreign aid expenditures, a balanced budget and no increase in Federal tax bases. This contemplates speeded defense procurement but no "crash" programs.

A State of the Union Message is an annual report to the Nation and to Congress, and should be examined in the light of the limitations that are inherent in a document which will later break down into many major messages. It is both an inventory reflecting conditions faced as a new Congress convenes and a requisition, general in form and subject to later detailing. When a change of Administration has taken place during the year the Message is examined closely from a policy viewpoint; when the Administration is a going business, attention turns more to "how" than to "what." That is especially true this time: How the President proposes to carry out current and new programs, operationally and financially.

No Alternative to Adequate Defense

Ike was unable to tell Congress anything about the nature of the problem that wasn't already well known: the course of action defense-wise had been determined on a Russian rocket firing range; the details, financing and the like, are for Congress to decide. The President offered his views, generally. The decisions, for reasons which have been apparent for months, are more likely to be the judgments of the co-equal legislative branch than have the findings of any recent year. Yet there is no alternative to adequate, costly national defense, and the President addressed Congress in the assured tone of one who realizes that the lawmakers must come around to his program, regardless of label.

President Eisenhower was not able to make political common cause with the Congress. Predecessors, with occasional exceptions, could insert a word or expression reminding his listeners of their "duty" to come to the aid of the party—to accept his leadership and cooperate. As he has in the past, Ike faced a Congress numerically and otherwise dominated by members of an opposite political faith. He had what business circles know as a hard sell. But the President made no concession, in word or attitude, as he placed before the lawmakers the sketch of a program that means sacrifice in a material way plus at least a partial holiday from partisanship, if it is to succeed.

To back his assurance that Russia's lead will be overtaken, Ike traced the progress made by the United States in missilry in a few years and contrasted that with the advances Russia has been able to achieve over a much longer period of time.

Friendship and strength abroad were pictured as greatly enhanced by recent NATO meetings. The President compared the voluntary coming together of the allied democracies, with the strife-ridden satellites' conquest by the Kremlin. Hungary's uprising was instanced to show the failure of military conquest and explain Russia's switch to economic warfare to establish domination of the world.

Here, the President appeared to be pushing foreign economic aid to a priority even above military strength for deterrence. "This non-military drive," he said, "if underestimated, could defeat the free world regardless of our military strength. This danger is all the greater precisely because many of us fail or refuse to recognize it."

It was the first blow struck for new and increased foreign aid appropriations.

The President took note of the current business decline to assure that "the basic forces of growth remain unimpaired," and to remind that the government stands prepared to take any appropriate action to promote renewed business expansion.

Pentagon Rivalries Must End

The intra-service rivalries at the Pentagon were treated in terms of regret at their existence and insistence that they must be ended. The President promised a future message dealing with this problem. He hinted strongly of adherence to unification under civilian control, while making allowance for the special needs of centralizing control over new weaponry in its development and production stages at least. On the point of military procurement, this paragraph was a significant reply to demands for precipitate switch to push-button warfare:

"We must maintain deterrent retaliatory power. This means, among other things, stepped-up long range missile programs; accelerated programs for other effective missile systems; and, for some years, more advanced aircraft."

But, General Eisenhower counselled, research and development must continue to anticipate and achieve the unimagined weapons of the future.

The sections of the Message dealing with foreign aid forecast greater emphasis on repayable loans through the Development Loan Fund, through funds generated by sale of surplus farm commodities, and through the Export-Import Bank. And this thought was introduced into Congress' planning:

"While some increase in Government funds will be required, it remains our objective to encourage shifting to the use of private capital sources as rapidly as possible. One great obstacle to the economic aid program in the past has been, not a rational argument against its merits, but a catchword: 'give-away program.' The real fact is that no investment we make in our own security and peace can pay us greater dividends than necessary amounts of economic aid to friendly nations. This is no give-away. Let's stick to facts! We cannot afford to have one of our most essential security programs shot down with a slogan."

There was no surprise in the recommendation for a five-year reciprocal trade agreements program, effective when the most recent three-year extension expires this year. That had been forecast in White House statements. The arguments in its favor were capsuled in terms of promotion of peace, mutual benefits, and continued employment for 4.5 million American workers. For a topic which is certain to create much controversy and is regarded almost sure to result in partial rejection of White House proposals, it was passed over lightly. Exchange of scientific knowledge with allied countries, also a controversial topic, received light treatment, too, the argument going principally to the benefits this country will derive by sharing foreign scientific know-how. This would be complemented by a $4 billion, four-year program of education and research into better teaching methods with control at the local level; doubling funds available to the National Research Foundation; greater participation by industry, institutions of learning, and local governments in lifting the financial burden.

The military budget will (*Please turn to page* 552)

INVESTING in the OFFICE BUILDING BOOM

. . . When caution signals are already flashing along the right-of-way

By ROBERT B. BEACH

EDITOR'S NOTE: The building industry has enjoyed a field day since 1946, and many operators have built up terrific fortunes working on a shoe-string, while the government shouldered most of the burden of assuming and guaranteeing mortgage loans for new home and apartment house construction.

Furthermore, the chronic housing shortage through most of the post-war decade was a bonanza for the owners of existing dwellings as well, allowing them to sell their properties at handsome profits. Apartment house owners especially were benefitted, and many succeeded in unloading their holdings on their tenants at their own price through plans of "cooperative" ownership.

And now, at what appears to be the top of the market, they are further seeking to cash in by offering shares in office and apartment house ventures to the public, promising 8% to 10% returns. For our part, at this stage in our economy, we prefer the shares of listed companies, whose financial and earnings statements are Exchange requirements.

But because we have received so many inquiries concerning the office building boom we requested Mr. Robert B. Beach, an outstanding real estate expert, to give us a story on the situation in this latest building venture — the exent of the need for new office space — whether it has not already been overdone — and the outlook for 1958.

In answer to your questions, it can be asserted as a general principle, that when the need for office space becomes well established, not to say acute, new office buildings will be provided at any cost.

It can likewise be said, also as a general statement, that when a building boom is successfully launched, it tends to out-run the shortage which occasioned it.

The first was questioned for a time following World War II. There was a period of pronounced hesitation. The opinion generally shared was that the sharp advance in construction costs, which had taken place during the years of conflict, made it impossible to produce commercial space which the rental market could absorb. So construction lagged and, as a result, building occupancy reached an all-time high. For all practical purposes vacancy was eradicated and the overflow was forced into make-shift quarters.

Once it was demonstrated, however, that new office space would rent at a figure well above prevailing levels, the tide of new construction spread

rapidly across the country, reaching proportions at the present time that are beginning to be viewed, as once before within memory, with some measure of apprehension.

In this upsurge of office building construction, or rather in any appraisal of it, certain things need to be kept in mind.

The record is one of high peaks and deep valleys. The volume of building of the 1920's resulted in excessive production, so far over-stepping the requirements of declining business as to intensify the devastation of the bleak years which followed. By 1934 the national average of occupancy had sunk below 75 percent of space available, a calamitous situation. Some 50 million square feet of vacant rentable area overhung a very sick market. For a decade, and more, there was virtually total lack of construction in this particular field for quite obvious economic reasons. Then came war restrictions which prolonged for another five years the period of enforced inactivity. All told, a 15-year moratorium!

Then came the resurgence which continues to this day, scantily at first, and then all-out in certain areas, selectively, but gaining momentum and coverage. The Southwest led off, having been touched lightly by the depression. But the renewed activity spread. As of now few of our principal cities have not had at least a taste. In some the taste has taken on banquet proportions!

The New Look in Office Buildings

A second point to consider, and a matter of vast significance, is that the office buildings of the present era are of a distinctly different type – a new species – identified by the "new look". Only the innovations go much deeper than mere appearance. They have tested new materials in various classes, often spurred on by the material producing industry in its constant quest for new markets. Thus today buildings are being constructed of aluminum, glass and stainless steel, in addition to conventional building materials, radically altering the appearance of new structures. As a matter of fact, about the most devastating criticism that can be leveled at a new structure in this age is that it looks like 1920.

This is not say that coming years may not bring a newer look. Who knows but that twenty years hence, buildings of the present "school" may be labelled "dated"? The test of time is yet to be applied, but as of now the new techniques of building construction are going, and going strong.

Inside, things are different, too – perhaps even more so. For the modern building is functional to a fault, functional with a flair for glamour. Automation in elevators, modular office layout, partitions that save space and can be moved at will, suspended ceilings, cellular floors, automatic controls of heat and cold, new materials, light and color, with plenty of both–quite enough to demonstrate that the new look is far from superficial.

Office Buildings Completed in Each Postwar Year

Year	No. of Buildings	Rentable Area Sq. Ft.
1947	2	682,000
1948	3	224,000
1949	3	312,000
1950	11	4,014,000
1951	8	1,216,000
1952	3	995,000
1953	5	957,000
1954	10	2,299,000
1955	9	2,199,000
1956	10	3,912,000
1957	19	4,913,000
1958 (Est.)	17	6,458,000

Based on data compiled by the New York Times.

The Competition With Older Buildings

What happens to the building that is no longer new, though perhaps so regarded until the new look came along? Likewise to those of earlier construction periods, dating back to the 1900's or before?

Perhaps not as much as at first blush might be expected–mainly for two reasons. First, because the competition of the new buildings has a higher rental differential to overcome which serves as a protective buffer for the older structures. This tends to stabilize the rental market, rather than force it down.

Second, because its substantial following is still a "minority group". A good many tenants, so far as can be told, are still happy enough with the erstwhile prevailing order, though at the same time more demanding.

But well entrenched as many of these older buildings are, because of their favored locations, there is still the need of "going modern" to maintain their competitive position. This calls for capital expenditures on a substantial scale, particularly for air conditioning. Fortunately the earning power is there to support an appropriate modernization program. Improvements of such nature are extensively under way throughout the office building industry. Rent adjustments are usually involved which in most cases the tenant accepts.

At every stage in the life of an office building economics plays a leading role–in inception, operation, refurbishment from time to time, and ultimately in its replacement. Fortunately records are available that give close to a 40-year case history. Much can happen in forty years – and much has!

Rental Rates and Profits

Rental rates, in terms of square feet of rentable area, reached a peak in the 20's of $2.50 on the average. That had shrunk to a low of $1.45 when World War II broke out, but has since recovered to a high of $3.58 in 1956. Data for 1957, when available, will probably show a further advance of 3 or 4 percent.

The latest showing is nothing to cheer about for costs have also been advancing. On a comparable square foot basis operating costs were $1.32 in 1929, $1.20 in 1941, and $2.47 in 1956. These costs include depreciation along with other fixed charges–exclusive, however, of ground rent, if any, mortgage payments and return on investment. Consequently they come before federal taxes levied against net

profit on this type of building.

For any number of reasons, all valid, no attempt has been made to record statistics on an item of major interest, investment return. This is especially significant for the investor contemplating the purchase of real estate stocks and bonds. Primarily this is for lack of an ascertainable base on which to calculate the return. First cost, book value, assessed value, reproduction cost less depreciation, market value, purchase price—the alternatives are too varied to be reconciled.

But potential earning power is a controlling factor in the economic analysis of any new building. It is what determines willingness to invest and is an element of weight in mortgage financing.

Cost (or value) of land may be known. Construction cost can be estimated. Rentals can be appraised, making due allowance for vacancy, and operating costs can be established within reasonable limits. Putting these computations together, it is no trick to arrive at a projected pattern of profit.

Investment return is in some part a misnomer, for "investment" does not tell the whole story. Building ownership and management is a business venture, subject to business hazards and entitled to a business return. It has become increasingly difficult, with financing tough and construction costs what they are, to arrive at a promising return. It makes a world of difference who the prospective owner is, what sort of return proves attractive. A financial institution, thinking first of a home office, may be happy with 5 or 6 percent; whereas a profesisonal real estate investor looking for business profit might show no interest in a figure running twice as high.

Special Reasons for Building Ownership

In general, the office building return is less than on comparable media. This may be because for many owners there are compensating intangibles. An imposing structure that gains favorable attention has an important public relations angle. In the case of a financial institution it builds prestige and creates an impression of stability. For an owner who has something to sell the advertising value is no small item.

For the professional operator, a considerable volume of investment money has been channelled into the office building field as a bulwark against inflation. With rising costs and shrinking dollars, people lean toward tangible property. Land values increase when suitably improved, and so in fact does the improvement itself in terms of a declining dollar. Witness transfer of titles, a transaction which enables the purchaser to set up a new depreciation schedule and start all over again . . . a procedure that can be made a valuable source of tax saving, as the high depreciation charges can be used to offset operating income. Tax savings contribute in other ways to the building boom, for some builders are willing to venture into a high cost project, since any losses incurred can be utilized to cut the tax liability on gains realized in other operations.

Is Building Being Over-Done?

An adequate supply of mortgage money is a necessary adjunct to any building "boom", whether of all-out or limited proportions. It was the availability of financing of the then popular "gold bond" type that led to the overbuilding of the 1920's. The mortgage lenders of that day had high-powered sales organizations in the field and were in constant need of "merchandise" to keep going. Keep going they did until the bottom fell out. From then on it was a different story!

A proper question at the present time is whether overbuilding is again imminent. The consequences of over-production will hardly fade from the memories of those who lived through it. One trouble is that a younger generation pays little heed to the grim lesson of the past.

There is one important difference in the present situation—a difference of more than passing significance. The principal source of office building finance is the insurance company which has a dual responsibility. It is hard to conceive that such responsible institutions can permit competition in the employment of their funds to run into reckless lending.

Viewing the country as a whole it does not appear that space production has as yet reached dangerous proportions. There are half a dozen cities where the question might be debated, but up to now they have shown a rather amazing capacity to absorb the area so created. In New York City where a fabulous amount of new construction has been going on—and still is, for that matter—current surveys show a bare smattering of vacancy, yet in the light of all the new office building that is going on—and contemplated, one can wonder about the future. What would happen if the economy should take a sudden tailspin is something one cannot help pondering. But, perhaps, what we are witnessing in this and other fields is a demonstration of confidence, long range. However, while these hopes may ultimately prove justified, there may be a painful interval for investors which might be sustained for a number of years. New Yorkers may recall that for a long time the Empire State Building was called the "Empty State Building".

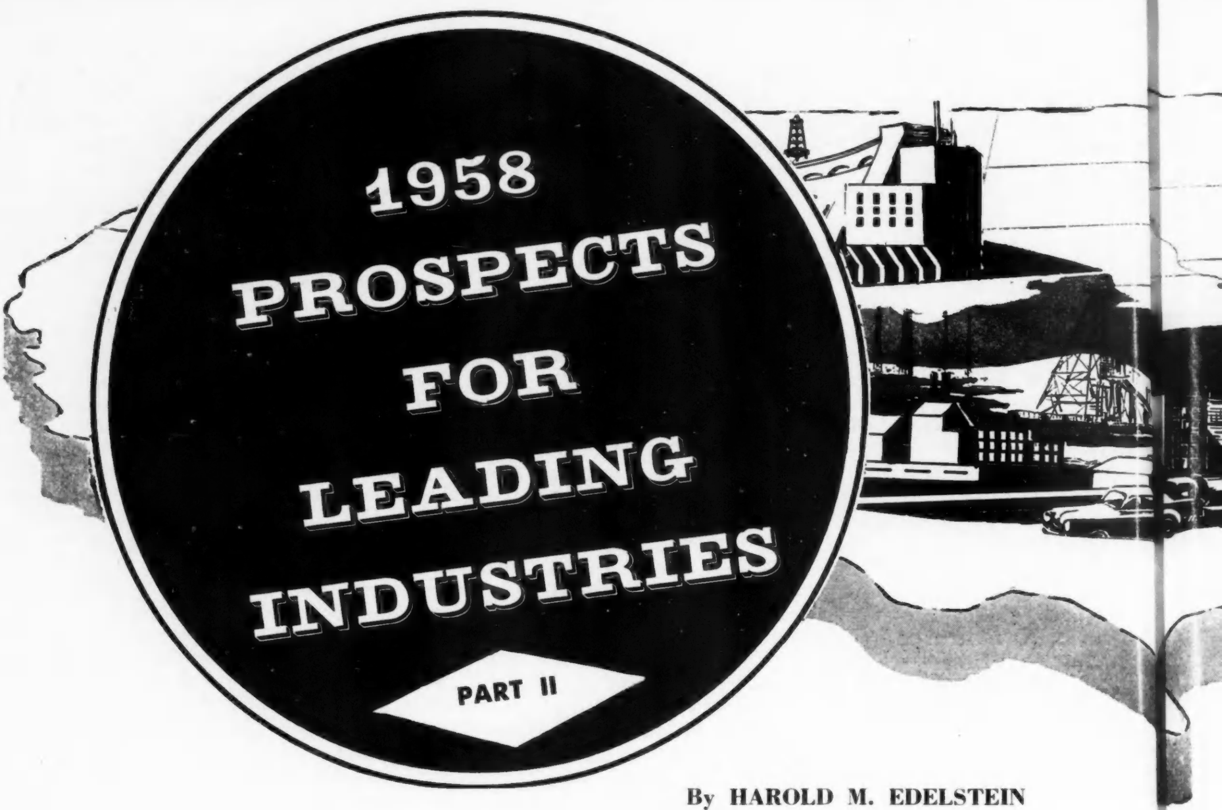
There is an inter-relationship between office building and city growth. Lack of adequate modern space is an invitation to big business to stay away. Taking a chance in anticipation of business demands has so far tended to pay off. Certainly that has been the case in Manhattan which has entrenched its position as the administrative focal point of national corporations by producing a seemingly unlimited array of facilities of the kind that commands premium rental.

There is this to be said about over-production of office space. It is not like the producer of shoes, or even automobiles, who by shutting down until consumption catches up, can keep his operations in balance. When an over-production of office space occurs it may take years for the industry to recover—and meanwhile real estate taxes and upkeep continue. This hazard is not to be taken lightly.

The Outlook for 1958

The outlook for the coming year is for a considerable amount of building activity. In fact, construction in general is hailed as a bright spot in the economic picture. Much of this construction will be publicly financed with road building as a case in point. But independent surveys indicate that private enterprise will contribute its share, and that office building may equal or possibly exceed last year's showing.

Office building as an (*Please turn to page* 550)



1958 PROSPECTS FOR LEADING INDUSTRIES

PART II

By HAROLD M. EDELSTEIN

■ In Part I of this report which appeared in our previous issue, we set the general economic framework for industry in 1958, and discussed several of the major industrial groups. We pointed out that in most segments of the business community competition has become much keener as companies strive to cope with the conflicting problem of narowing markets and rigid costs.

The general conclusion was reached that in most industries it will be the major companies who will fare best in the period ahead, because they command the resources and talent to maintain their position.

In this concluding article, attention will again be drawn to the relative position of the major and secondary companies in each group. In addition the particular factors and special circumstances affecting individual industries will be stressed, calling particular attention to their impact on specific company fortunes.

AIRCRAFT MANUFACTURING – 1957 was a year the aircraft industry will long remember. It was a year of unexpected change and radical reversals in government policies that brought serious dislocation to the industry.

The year began on a high and apparently stable level but by mid-year fiscal difficulties caused the government to cancel and stretch out many existing contracts, sharply curtailing current production.

After Sputnik the industry's fortunes were again reversed. Economy gave way quickly to a new accent on national defense and the stage was set for a huge new missile program.

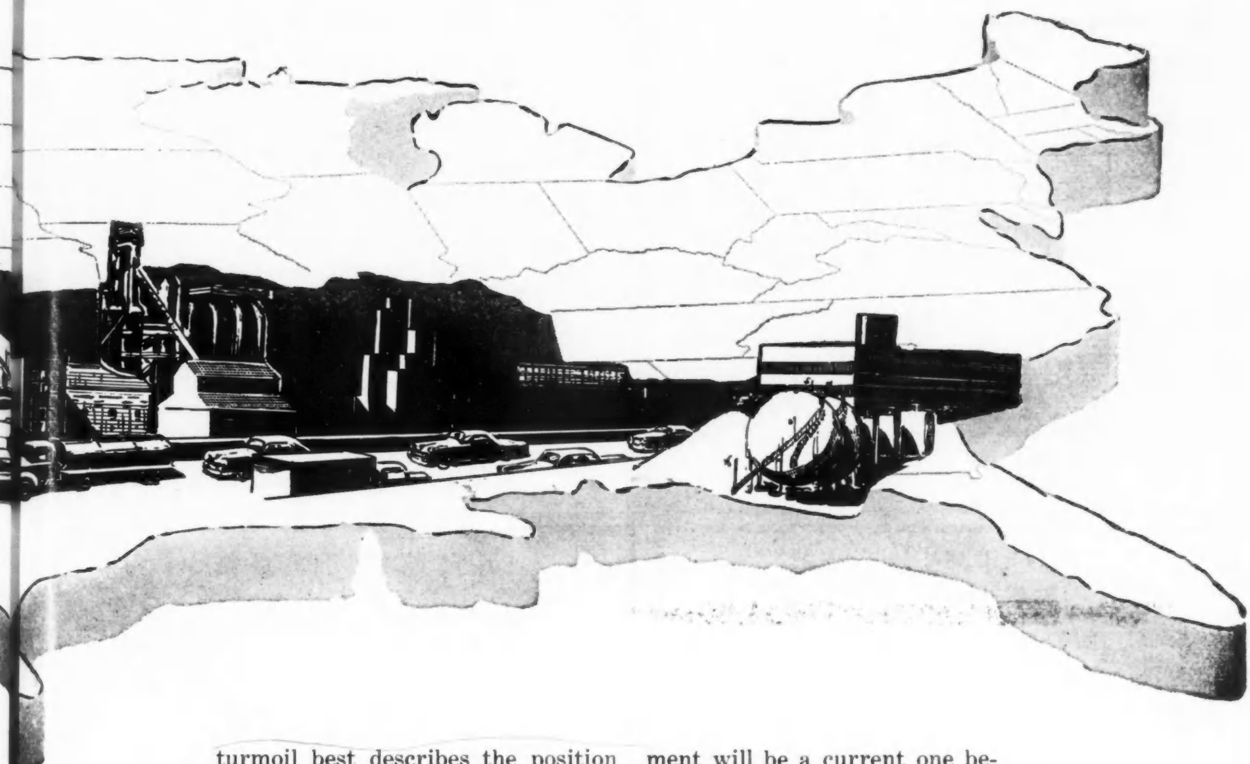
Thus some aircraft manufacturers enter 1958 substantially better situated than appeared likely last summer. It should be pointed out emphatically, however, that it is only the future that is better. The present, and this means well into 1958, will be a period of considerably lower earnings for some major producers and scores of lesser companies. The disruptions of 1957 can be shrugged off ultimately as new orders flow into the industry, but they cannot be erased from the current profit-and-loss column.

North American Aviation, for example, having had its Navaho missile contract cancelled, and having completed an important fighter contract early this year, is bound to show earnings that will be significantly lower for 1957 and at least to the first half of 1958.

Grumman, a prime Navy contractor, was hit even harder by cancellations and was forced to lower its dividend payments, but the company has just received a new naval contract, which improves its position for the period ahead.

North American, on the other hand, by virtue of its dominant missile and rocket engine position, will undoubtedly garner a large share of new missile orders, which should help the profits trend to turn upwards again.

General Dynamics fared well last year because of its broad diversification in several defense areas, and because of the stability its Convair Division enjoys from civilian plane construction. Similarly Douglas, Boeing and Lockheed, the major manufacturers of non-military craft fared generally well, but



turmoil best describes the position of most other companies.

Nor is the future secure for many of them. Missile funds will be doled out more selectively than aircraft funds, since not all of the companies are equipped to produce missiles. Moreover, it is too late for many of them to enter the competitive design race and still garner a share of the funds curently being made available.

No consistent pattern is in view for 1958. Some companies will step up production immediately. Others will be hurt by further curtailment and payment restrictions. Mr. Smythe in his story, "A First Hand Report on Missile Expenditures," in this issue, clarifies the new developments for the companies involved.

AIRLINES – The airlines move into 1958 with their major problems of the last few years still unresolved. The industry's brightest spot is the continued popularity of air travel, and the steadily increasing share of the nation's passenger business it is gathering in, but commensurate earnings growth is not materializing. Moreover, in mid-1957 the industry was the victim of federal anti-inflation policies when the CAB refused an across-the-board rate increase despite the strong case the airlines were able to present. As with all industries, costs continue to mount, but under their federal franchise agreements, managements cannot raise rates as an offset.

What is particularly disturbing to the airlines, and for investors interested in the air carriers, is that earnings improvement is a prime necessity if the industry is to finance its swing over to jet aircraft within the next few years, a necessary shift if they are to meet competition.

Moreover, for the major lines who have already contracted for some jet craft, the problem of payment will be a current one before very long, making better earnings an urgent necessity for companies in this situation.

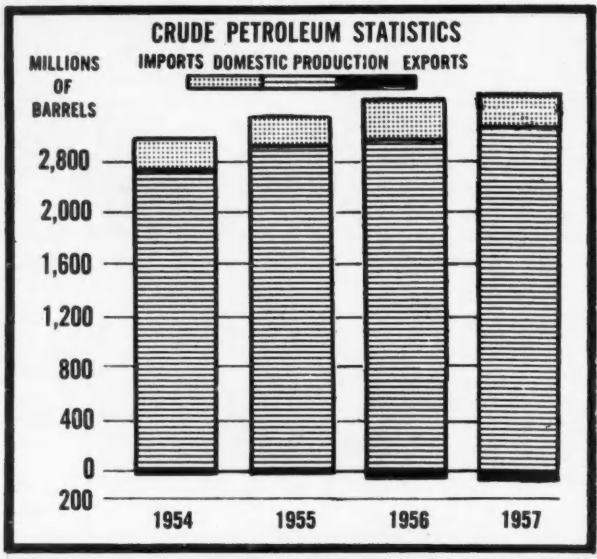
Fortunately money market conditions have eased in recent months, enhancing the outlook for equipment financing in the period ahead. But full scale borrowing will only compound the industry's difficulties in the long run. Financing out of earnings is generally the cheapest course, and this the lines will be unable to do as things stack up now.

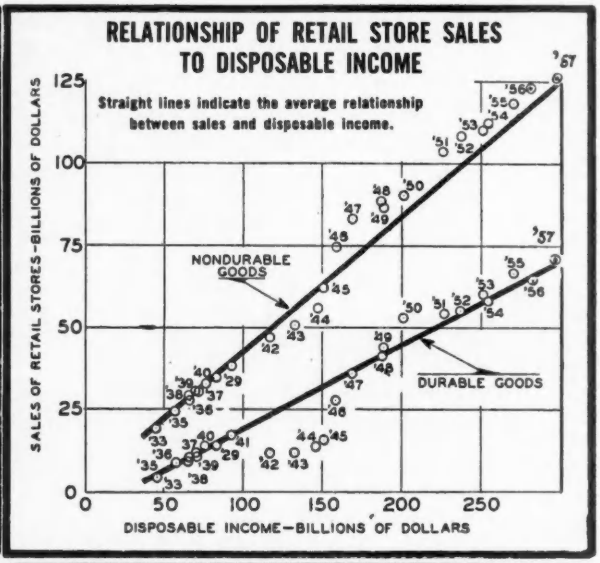
Nevertheless, the outlook for the industry is not all black. It now seems that the government is recognizing the inadequacy of the current rate and is ready to do something about it in 1958. Moreover, with defense contracts again flowing into the primary aircraft producers, they can be expected to ease their pressure on the airlines to accept delivery of new planes on schedule, easing the demand on their capital funds.

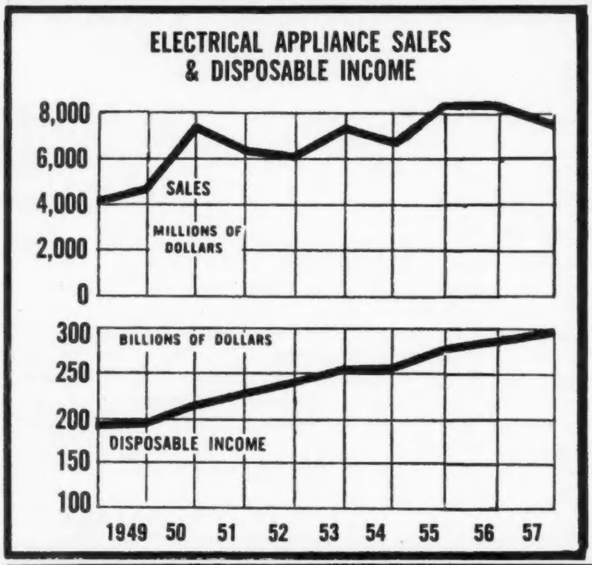
The year ahead should witness further passenger revenue gains and a continuance of the excellent safety and efficiency records of the lines, but little profit betterment can be expected.

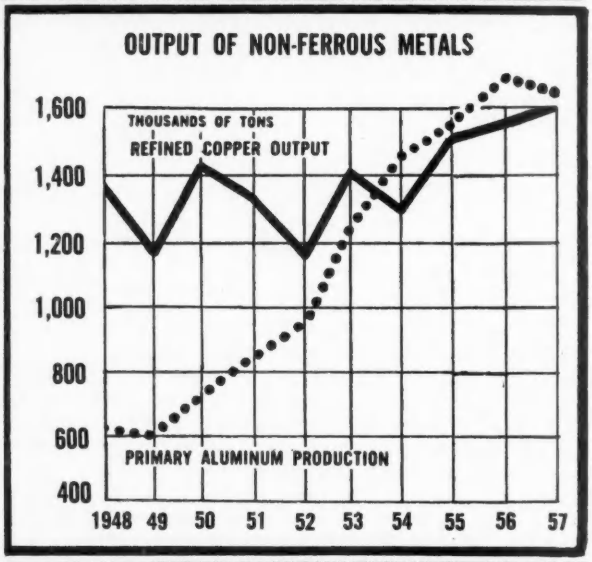
PAPER – Some appreciation of the post-war growth of the paper industry can be gathered from the fact that in 1958 newsprint capacity at 8 million tons, will be equal to twice the total domestic consumption in 1946. Before the year is over it will double the industry's capacity figure for that year as well. With additional newsprint machinery already scheduled to come on stream in early 1959, total capacity will amount to 10 million tons, nearly 40% more than was used in the U.S. and Canada in 1955.

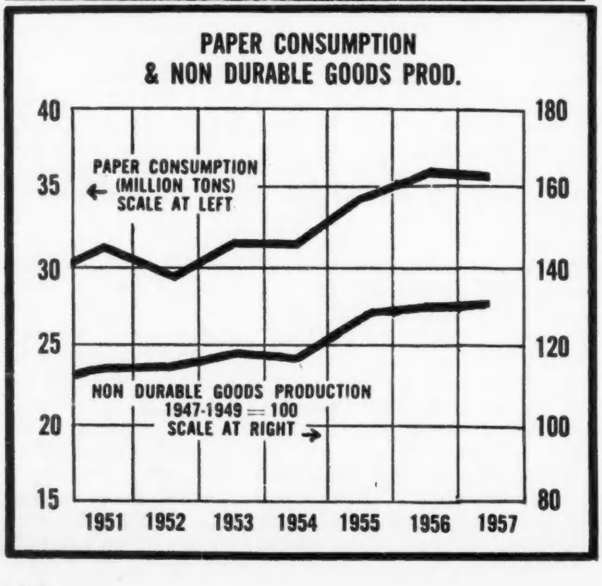
Such enormous growth is not without its problems however. As is characteristic of uncontrolled industry, each company proceeds with its expansion

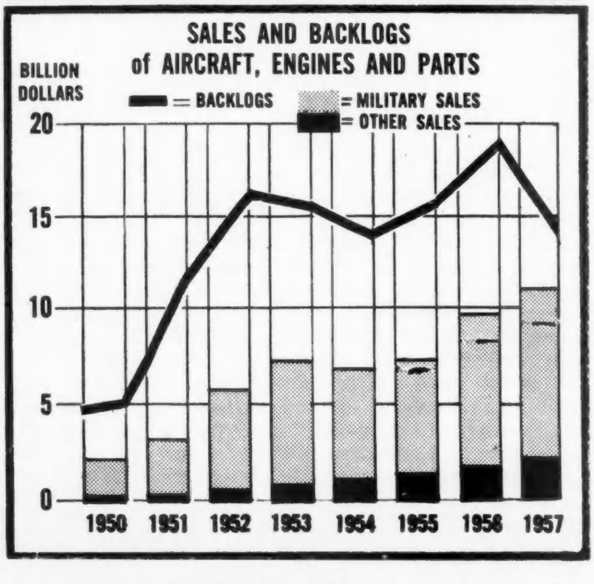

CRUDE PETROLEUM STATISTICS
MILLIONS OF BARRELS
IMPORTS DOMESTIC PRODUCTION EXPORTS
2,800
2,000
1,600
1,200
800
400
0
200
1954
1955
1956
1957


RELATIONSHIP OF RETAIL STORE SALES TO DISPOSABLE INCOME
Straight lines indicate the average relationship between sales and disposable income.
SALES OF RETAIL STORES—BILLIONS OF DOLLARS
NONDURABLE GOODS
DURABLE GOODS
DISPOSABLE INCOME—BILLIONS OF DOLLARS


ELECTRICAL APPLIANCE SALES & DISPOSABLE INCOME
SALES
MILLIONS OF DOLLARS
BILLIONS OF DOLLARS
DISPOSABLE INCOME
1949
50
51
52
53
54
55
56
57


OUTPUT OF NON-FERROUS METALS
THOUSANDS OF TONS
REFINED COPPER OUTPUT
PRIMARY ALUMINUM PRODUCTION
1948
49
50
51
52
53
54
55
56
57


PAPER CONSUMPTION & NON DURABLE GOODS PROD.
PAPER CONSUMPTION (MILLION TONS) SCALE AT LEFT
NON DURABLE GOODS PRODUCTION 1947-1949 = 100 SCALE AT RIGHT
1951
1952
1953
1954
1955
1956
1957


SALES AND BACKLOGS of AIRCRAFT, ENGINES AND PARTS
BILLION DOLLARS
= BACKLOGS
= MILITARY SALES
= OTHER SALES
1950
1951
1952
1953
1954
1955
1956
1957

in terms of its own view of the future, and in time the combined efforts of all producers leads to a great excess of production. Such is the case today, and it will remain so all through 1958.

Fortunately, however, the paper industry is stronger today than ever before—its product lines are much wider; research programs are constantly finding new uses for paper and its by-products; and financial strength characterizes most major companies. Under these circumstances the period ahead need be considered little more than one of consolidation while the normal growth of paper consumption catches up to supply. In the meantime many producers are cutting back their expansion goals and conserving resources for the competitive struggle ahead.

Profits will undoubtedly give ground further in 1958 as cost rigidities eat into smaller sales dollars. Nevertheless the rash of consolidations within the group in the past few years has strengthened the industry's basic structure so that most units should have little trouble weathering the storm.

PETROLEUM – Like the paper industry, petroleum producers are presently confronted with more capacity than an already glutted market can absorb. The current pattern has been a long time in the making, but the windfall of demand during the Suez crisis a year ago produced a temporary stimulant. No similar one appears in the offing at the moment.

As a result, the government asked oil importers to voluntarily reduce their imports, first on the east coast, and then on the west coast. Yet despite general compliance, the weakness in the price structure of petroleum products has continued and now threatens to spread to crude oil.

Several factors have contributed to the weakened price structure within the industry. First, is the failure of domestic demand to match expectations, despite its continued year to year growth. This factor alone would pose few problems, but when coupled with the sharp drop in exports since Suez – the added capacity brought into production as a result of the crisis – and the failure of voluntary import restrictions to completely offset the upsurge in imports, the situation assumed troublesome proportions.

The large, integrated organizations, able to absorb the drop in rfinery prices more readily, are feeling the least impact of the supply-demand imbalance, but the independents who must purchase their crude from others are being caught in a tight profits squeeze.

The effect has been some reduction in refinery runs as the independents become more reluctant to purchase crude at current prices. Despite this fact, authorities in the oil producing states have maintained a restraining hand on crude producers in order to keep prices up, but unless a sharp turnaround in demand is forthcoming soon, prices will give ground further.

The industry's inability to hold the crude price line will be unwelcome news to the giant exploration and development companies. Year by year the cost of drilling has risen steadily until now the spread between costs and the price of crude is the narrowest in history. Nevertheless, with growth in world-wide demand for petroleum products virtually assured, there will probably be little cutback in the quest for new reserves, in the more prolific areas of the world. In the U.S. and Canada, however, 1958 may witness considerably less drilling activity than heretofore.

MERCHANDISING – In 1957 department stores began to master the techniques of competing with the discount house—by a policy of "outdiscounting" the mavericks while maintaining at least some of the services they traditionally offer. On the other hand the discount houses have taken on more of a department store air so that in time the differences between the competing organizations should pale.

Total retail sales probably climbed to new records in 1957, although the rate of growth slowed considerably towards year end. Nevertheless, the better managed department stores, such as Federated, Macy's, Gimbel's and May Department Stores realized gains, and should continue to fare well in 1958. Consumer spending will contract a bit in the year ahead but the share of the consumer dollar spent on soft goods injects a note of stability, even though hard goods sales may continue downward.

Supermarkets rounded out a good year in 1957 and enter 1958 with their positions better entrenched than ever. New experiments, such as Grand Union's decision to market consumer durables still remain to be tested but success or failure will be a source of greater concern to the department stores than to the chain store operators.

Faced with some spending cutbacks, department stores are cutting down some of their expansion plans, but so far there seems no abatement in the widening operations of the supermarkets. 1958 should be a stable year for both groups.

NON-FERROUS METALS – Continued over-capacity spells out the crux of the story for the non-ferrous metals producers in 1957, and 1958 will witness more of the same. Copper, the first to feel the weakening in raw materials prices has been joined by lead, zinc, nickel, and belatedly, aluminum.

As we move into 1958, however, producers are taking steps to lessen some of their difficulties. Aluminum producers have been pushing hard for new markets, and copper companies have ordered reductions in output. Both expedients however are stopgap in nature and will have little effect on near-term earnings.

The copper industry, through cutbacks, has stemmed the downward movement of prices, but although costs will be lower as a result, the principal effect will be a more stable market in which to do business, rather than any significant earnings betterment.

The major companies, Kennecott, Anaconda and Phelp-Dodge have introduced some stability into overall operations through diversification, but the smaller and higher cost producers seem certain to suffer further earnings shrinkage in 1958.

Compounding the industry's difficulties is the cessation of government stockpiling and the constant threat posed by the enormous government supplies overhanging the market. Aluminum producers are less vulnerable in this respect, but unless consumption picks up sharply soon, further price cuts are in prospect.

OFFICE EQUIPMENT – In late 1957 the office equipment producers witnessed the first hesitation in the steady sales increases (*Please turn to page* 548)

FIRST HAND REPORT ON MISSILE AND AIRCRAFT EXPENDITURES

By ALLEN M. SMYTHE

★ Last week, two days before delivering his annual state of the union message to Congress, President Eisenhower sounded the clarion call for a stepped up ballistic missile program, by requesting that an additional $1.2 billion be appropriated in the current fiscal year for defense purposes.

In his request, and later elaborated on in the state of the union message, the president outlined the direction our future defense expenditures are going to take and what some of the difficulties are that we can expect to encounter.

For investors it points up clearly that missile and aircraft producers will garner a fair share of these new funds, but substantial amounts will also be funneled into the electronics, communication and submarine building fields.

Over 50% of the newly requested funds will be used to expand existing missile research, development and production programs, while the balance will be utilized in strengthening our present defense warnings systems. The DEW line, (the "distant early warning line") stretching across Canada's arctic reaches will be updated with new radar equipment capable of detecting missiles and aircraft 3,000 miles away; and SAGE, an elaborate defense system designed to track enemy aircraft and lead interceptors directly to their prey, will be modified to conform to minimum requirements of the missile age.

For the aircraft industry, the new program will be a much needed shot in the arm, even if actual profit potential is still several years away.

The apparent decision by the president to lay heavier than expected stress on submarines as missile launching platforms will redound to the immediate advantages of **Lockheed,** the principal contractor for the Navy's *Polaris* intercontinental ballistics missile. The *Polaris* is already in an advanced state of development, increasing the likelihood that a stepped up program to perfect it will bear fruit and result in a production contract for Lockheed. **General Dynamics,** a major aircraft contractor, but also the nation's principal submarine builder will also reap substantial rewards from this stepped up program.

Added to the production directives already issued on the *Thor* to **Douglas Aircraft,** and on the *Atlas*, a product of General Dynamic's Convair Division, this totes up to a tidy sum already starting to pour into the aircraft and missile industry.

Despite this promising picture however, the major aircraft producers are breathing a sigh of relief

over Pentagon decisions to retain aircraft as the first line of defense for some time to come. Since Christmas, over one half billion dollars in aircraft contracts have been issued by both the Navy and the Air Force, indicating that there is no dispute between the two services on this basic strategic point. Thus, in spite of the large increase planned for ballistic missiles, military expenditures for aircraft will be more than double that for all types of guided missiles.

The Scope of New Aircraft Procurement

Much of the information about performances and quantity of these new weapons is classified, but enough is available to indicate something of the volume of business that can be expected for a number of aircraft contractors.

The largest amount recently announced is $200 million by the Navy to the **Chance Vought Co.**, Dallas, Texas, for the purchase of a new aircraft carrier fighter, the F8U-2. The F8U-2 is the big brother of the F8U-1 Crusador, the world's fastest carrier plane, which will continue in production at the Dallas plant.

The new Navy fighter will be propelled by the J-75, the latest and largest of the new Pratt & Whitney turbojet engines. No announcement has been made of the manufacturer of the "much improved" radar and fire control systems to be installed.

According to the Navy, the F8U-2 "will have even better performance than the F8U-1 which won the Thompson Trophy with a speed of 1,015 miles-per-hour in 1956 and set the first supersonic trans-continental record last July by streaking from Los Angeles to New York in 202 minutes."

It will be armed by the Sidewinder, the new Navy developed air-to-air guided missile, now being made by **Philco Corp.**

The Navy also announced the award to **Grumman Aircraft Corp.** for the winning design of a carrier based attack bomber. Few details have been given out but development contracts follow such awards and Grumman should be assured of considerable business for the next few years because of it.

Grumann is now in production on the Navy fighter F11F, a supersonic weapon that is also carrier based. This is powered by the **General Electric** J-79, a new lightweight turbojet engine. Delay in the production of these engines was the cause of the low activity in the Grumman factories for the past year and a half.

Expenditures for Guided Missiles versus Aircraft
in Millions of Dollars

Fiscal Year June 30	Total	Guided Missiles Air Force	Navy	Army	Aircraft (Military)
1957	$1276.0	$779.0	$177.0	$300.0	$6751.0
1956	918.0	485.0	172.0	260.0	6880.0
1955	631.0	305.0	175.0	150.0	8037.0
1954	503.5	175.9	141.1	186.6	8937.0
1953	295.0	81.1	94.8	119.1	7416.5
1952	168.9	66.4	56.1	46.4	4888.4
1951	21.0	15.5	5.1	0.4	2412.5

The Revolutionary "Chemical" Bomber

The Air Force disclosed that it had awarded a development contract to **North American Aviation** for the airframe of a 2,000 mile-an-hour chemical fueled heavy bomber which will eventually replace the B-52.

This new Air Force weapon, which is referred to as WS110, a chemical bomber, will fly in excess of Mach 3, i.e., three times the speed of sound. Because aluminum becomes soft at this speed and the resulting air friction, the airframe must be made of an alloy steel or some new rare metal. Some form of newly developed ceramic coating may be used.

Award of a contract to North American ended a competition that firm has been engaged in with the **Boeing Airplane Co.** Both have been working for two and a half years on designs for the bomber.

The Air Force was pleased with the results of North American research on new metals and alloys for supersonic aircraft. Several months ago the firm was given a development contract for a new long range fighter, the F-108. This also is a Mach 3 weapon with a celing of around 75,000 feet.

These two supersonic airplane contracts mean much profitable business for North American two to four years hence. Last summer the picture was not very bright after the cancelation of the *Navaho* intercontinental missile and the expiration of the Air Force F-100 fighter production.

Some plants were closed and many thousands of men were laid off. The situation is not too satisfactory now, although their Rocketdyne Division is working overtime on rocket engines for ballistic missiles. Last fall the firm received the contract on a crash program for an air-to-surface missile. This guided missile is for use on the B-52 heavy bomber. It will extend their range of action and keep them out of the range of enemy anti-aircraft fire.

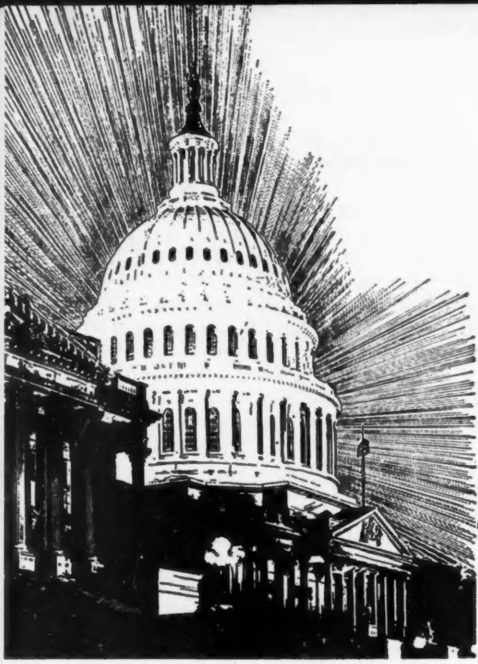
This new missile, if successful, will probably be also used on the WS110, thus making North American the first company to build both the aircraft and its armament. As its speed would preclude the use of conventional bombs, the term "bomber" for this weapon could be supplanted by a new designation, missile launcher.

The power plant for the chemical bomber is under development by the jet engine division of General Electric in Cincinnati, Ohio. This engine is to be made of rare metals such as titanium and zirconium that will withstand the high temperatures generated by high energy fuels.

Some of these "exotic" or "zip" fuels have a base of boron or lithium. Others use "free radicals", i.e., molecules of hydrogen and other gases suspended in the fuel. A number of chemical companies have research contracts for these high energy fuels but the amount of money involved is not substantial.

How We Stand in the Atomic Aircraft Race

While no detailed information on contracts have been released on the atomic aircraft project, it is known that the Pentagon (*Please turn to page* 550)



Inside Washington

By "VERITAS"

INDUSTRIAL land and building sales are expected to continue at a high volume in 1958. More than 100 transactions in the $1 million or more class were listed in 1957. In addition to the spectaculars there were hundreds of deals which neared the seven-digit mark. The interstate highway development program will turn vast acreage into locations for industrial purposes. Optioners already are active along prospective rights-of-way, closing deals. Said President Harold B. Hess of the Society of Industrial Realtors: "The tempo of transactions indicates industry's continuing pressure for new sites and plants."

WASHINGTON SEES:

The European Common Market became a fact of record this month but it will be at least one year before the United States' export-import trade will pick up traces that may forecast its success or collapse. The economic unit created by France, Germany, Italy and the Benelux Nations contemplates tariff-free movement among subscriber nations, and uninterrupted passage of materials and manpower. It is predicated upon the thought that the participating countries will find so exact a balance between import and export among themselves that customs duty protection won't be needed, local business will come out even, and job dislocation won't be a serious problem. If they're right, they have launched an economic world power rivalling Russia or the United States.

The idea expressed in the Common Market had a trial run in the Coal-Steel Community which unites most of the same countries. No serious problem has been encountered there. But to find the two notions matching is to overlook the fact that they have been complementary, not competitive, up to now. The Common Market idea accepts the fact that many long-time, sheltered businesses will be driven out of the marts of trade in the interests of the "general welfare."

Tariff barriers will be lowered out of sight gradually. None will disappear until one year from now. Following that will be 11 more years of "adjustment" and outside retaliatory steps.

TAX REDUCTION involving $2 billion annually is involved in the progress of the railroad brotherhoods to amend the Revenue Act in a manner which would permit deduction of railroad retirement and social security taxes from Federally taxed income. AFL-CIO joined the rail unions when an original proposal, involving only the latter, was extended to include social security tax payments. Legislation has been introduced (H.R. 5551) and sponsors are reminding Congressmen that 60 million beneficiaries have an interest. The lawmakers are asked to ignore the fact that each payment goes into a separate account for the benefit of the payer.

RENEGOTIATION of defense contracts takes on added importance as a new drive to catch up with Russia's supposed strength gets under way. The first step will be toward Congressional declaration of basic policies. The House Armed Services Committee will take the initiative. Concern is expressed that post-audit in its present state of uncertainty might be a brake on a sound defense program. But a greater difficulty presents itself in the four-year backlog of cases on the Renegotiation Board calendar. While this condition exists, neither government nor the affected units of industry can plan ahead efficiently.

RELIEF from labor union overreaching continues to come from non-Congressional sources. Several state legislatures will begin consideration of right-to-work bills this month. If past actions are an indicator, at least some of them will declare against compulsory union membership. And the National Labor Relations Board ruled that common carrier hot cargo contracts are illegal. ICC also struck down labor-management agreements requiring employers not to deal with businesses the Teamsters Union labels "unfair."

As We Go To Press

▶ The issues which dominate Washington discussions as the new Congress gets under way are those left behind when adjournment came several months ago. The change is in degree: there is more intensity, more urgency today. There is less partisan talk, less reaching for advantage. Senator Lyndon Johnson, majority leader, keynoted the basic theme when he told his fellow democrats: "Save the Nation first, or you'll have no political party to save." This does not mean that the democrats intend to be responsive to all White House dictates. Quite to the contrary, feeling runs through the ranks of the demmies that saving the country equates with defeating some proposals, "improving" others that will come from the Chief Executive.

▶ The principal concerns of Congress it is clear are taxes, defense, foreign trade treaties, and what to do about organized labor's sins. That is not, necessarily the order although it might well be. Early decision is expected on the necessity for continuing all existing levies--individual, corporation, and excise. With the certainty of a budget larger than last year's, additional revenues will be needed. The balance of $1.5 billion which President Eisenhower forecast in this Fiscal Year's operations won't come out. Spending will exceed the budget, not remain comfortably within it. Add to this about $2 billion to meet the challenge of new weaponry and the answer comes out, plainly more revenue.

▶ Determination is voiced on all sides to keep the budget from rising above inescapable demands. Some of the more optimistic profess to see a chance that there can be shifting of funds, postponements of works, economies, and financing gimmicks, the net of which would be a budget about as large as Ike proposed for this year. There would be better grounds for such hopes if this search were not already an annual endeavor. Actually there's nothing new in the principle, as debates on this year's appropriations bills, and those which preceded it, readily show. No Senator is likely to invite the blast that would come if his state takes leadership in cutting down public works, for example; there is even less likelihood that a House member, closer to his constituency, would dare to vote himself out of Congress.

▶ The late Jere Cooper, chairman of the Ways & Means Committee had prepared the blueprint of a tax revision which is beginning to unfold. The last serious attempt to "work over" the Revenue Act was made in 1954. Indications are that most of the inequities were preserved and a few more added. Mr. Cooper's successor, Rep. Wilbur D. Mills is not considered as expert in federal tax matters as the man whose shoes he will fill, but he is a "specialist": he has devoted his energies to microscopic examination of the Revenue Act to spot inequities and dodges. Mills plans to come up with a report and suggested legislation, pointing the way to new revenues running into hundreds of millions. But Mills doesn't visualize billions of new Treasury income, and billions will be needed. Also, some of the Mills propositions are foreordained to defeat: reduction of depletion allowances on natural resources, for example.

▶ Defense ties directly into the related problems of tax, foreign trade treaties, and even the misadventures of organized labor. President Eisenhower has written the ticket for defense in terms of $1-$2 billions now, and that's only the down payment! This amount, added to what will be spent in the current Fiscal Year for preliminary work on planes, rockets and missiles, starts the program. The bills will come along as the finished products are delivered. That forecasts even higher defense budgets in the years after 1958. In round figures, national security will account for about $40 billions in the fiscal year ending June 30, 1959; the highest spent in any year

was in 1945 when the cost exceeded $45 billions--understandable in a climatic war year. Ike would settle for about $40 billions, and he'll be given that much, or more.

▶ The Administration is making a valiant effort to tie the foreign trade treaty program into the worldwide democratic effort for peace by mutual agreement or, if necessary, by the deterrence of a show of strength. There can be no disputing the validity of the supporting argument that friendly foreign countries must market in the United States if their domestic economy is to grow to the point where the blandishments of communism lose their attraction. Stopped at our shores by a high tariff, they must seek trade treaties elsewhere, and such agreements lead to broader relations. But this doesn't detract a whit from the provable fact that domestic industry is suffering from the trade program. Not across-the-board, but dangerously nevertheless.

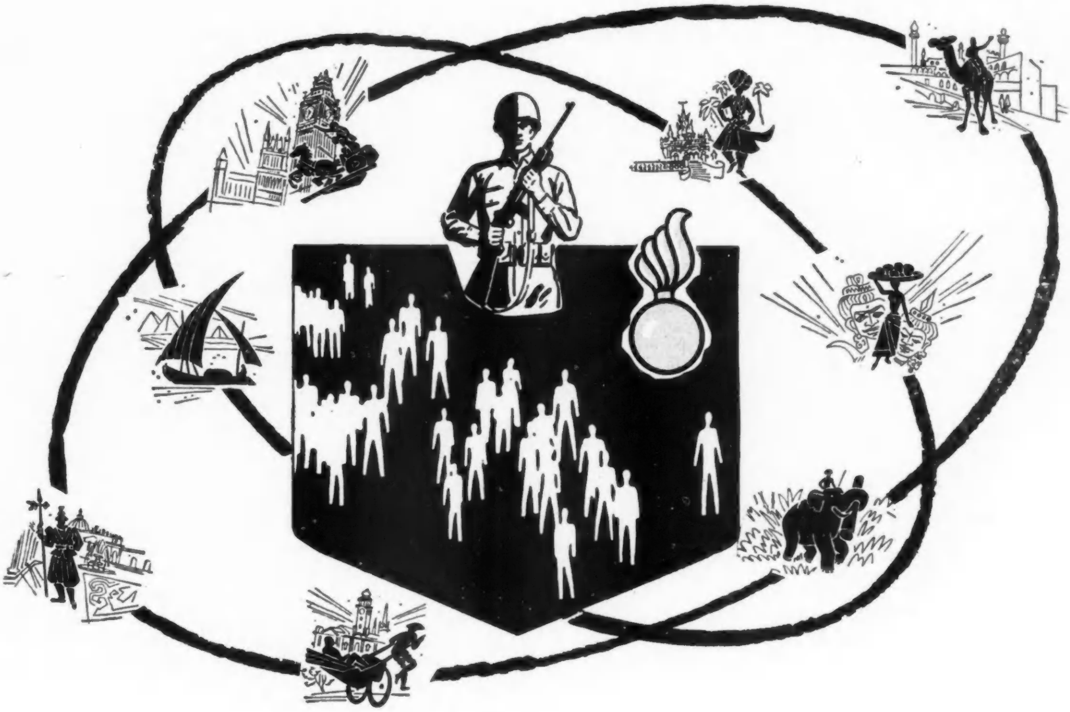
▶ The Ways & Means Committee of the House and the Finance Committee of the Senate will receive President Eisenhower's proposal for a five-year extension (the 11th) of the Hull Act as the trade treaty program is called. The career Congressmen come principally from the southern states, and seniority places them high on these committees which juniors never make. The south has undergone change toward industrialization in the 24 years since Senator Cordell Hull drafted his "free trade" bill. A nose count today would show the extension is opposed by a majority of members of the committees in charge.

▶ They might accept a three-year extension instead of the five-year plan Ike is putting forth: they probably won't indorse an extender that does not have a stronger "peril point" control. It is the duty of the President to apply a protective tariff when imports of any commodity threaten a domestic industry. Ike has been slow, reluctant, to use this. Congress may take from him the "peril point" discretion, administer this provision on Capitol Hill. There appears to be no prospect that Congress will adopt the White House proposition exactly as submitted. In fact it's suspected that the five-year term as a substitute for the three-year extension now operative, was inserted as one of the bargaining points to save the framework of the legislation.

▶ The misbehavior of segments of organized labor will be frowned upon by the new Congress. Little more than a register of disapproval now seems in sight. Labor has taken some steps to clean its own house: the costly expulsion by AFL-CIO of the Teamsters Union, and some smaller entities was a dramatic gesture of limited effect. The teamsters have lost none of their power to create mischief and James Hoffa still is president of the union. Until the McClellan Committee details its recommendations, Congress will have nothing tangible to work with. The Administration program as expounded by Labor Secretary James P. Mitchell is to applaud organized labor for its house-cleaning moves, accept the unions' proposition for disclosure of welfare and trust fund financial transactions. Nothing about dues mishandling or respect for antitrust principles!

▶ The Labor Department plans a big push this year for broadening of the Federal wage-hour law. The strategy will be the same as was used last year: broaden the base by bringing in retail employees, service trades and some other groups, in the larger areas of employment, let the hourly rate wait for another day. The Administration has proposed a bill which would add about 2 million workers to the protection of maximum hours (40 hours a week with premium pay beginning at that point); AFL-CIO sponsors a measure which would bring in about 9 million more.

▶ The pressure for covering only the larger operations is a "nose under the tent approach." Professedly, it would affect only multi-unit retail outlets and/or those grossing more than a stated amount annually (the amount is in dispute.) Obviously, if any segment of retailing is brought under the Act, their adherence to the provisions will require the smaller units to adopt them, or give up their personnel. AFL-CIO at first fought the idea of broadening the base without boosting the hourly rate of base pay. Now they seem to have caught on, and are pressing for the bill as it stands, subject to some additions but ignoring pay for the present.



1958...

Economic and Political Trends in Individual Countries

AROUND THE WORLD

By A. W. ZANZI

● The current mood in European financial circles is one between apprehension and cautious optimism.

The whole situation is under the shadow of the concern in England and on the Continent about the possible repercussions on world trade of the widely heralded down-turn in the U.S. economy in 1958 and its financial repercussions. Europe's capitals now regard the possible spread of the U.S. and Canadian recession to the rest of the Free World as the major threat to their economies. Already there are signs of the depressing impact of America's slowdown. The decline in British exports has been interpreted in London as representing the first "ripples of a world recession." This concern is heightened by the awareness that Europe's slender gold and dollar reserves could not possibly weather a serious recession originating in the United States. Moreover, the prospect that the next Congress will raise U.S. tariffs offers Europe's leaders little hope of improving their gold and dollar holdings.

Economic retrenchment and political unrest in the Far East afford litle cause for confidence in the maintenance of political and economic stability in that area. Nor do the austerity measures adopted in India, Japan and the Philippines ease Europe's concern as to the future of its markets in those countries. If anything, recent developments in Asia suggest the very real possibility of a resurgence or intensification of import and exchange restrictions, bilateral trade agreements and other discriminatory practices leading to a fierce and possibly debilitating competition for markets.

In 1958 many nations will embark on a major reappraisal of their trade policies, with the accent on greater national specialization and protectionist policies.

In the United States specifically, the course of international trade will be dictated largely by Congressional action on the proposed extension of the Trade Agreements Act (which provides for U. S. participation in the General Agreement on Tariffs and Trade) and on a fundamental revision of U. S. tariffs.

United Kingdom Faces Further Pressure on Sterling

Despite notable economic gains, the British economy still contains the seed of further setbacks. A fresh wave of pressure on sterling reserves could easily materialize in the coming year as a result of a decline in the United Kingdom's exports and the

large deficits which the Commonwealth nations will continue to incur.

The Economist of London points up one of Britain's most pressing problems with the observation that "The margin for expansion in the U. K. export trade seems to have nearly disappeared; in the first 11 months of 1957, exports were only 4½ per cent more in value than in the same months of 1956; most of this increase must be represented by higher prices, leaving perhaps a bare 1 per cent rise in volume of exports."

This is indeed an unfortunate record in view of London's need to widen the present slender margin between gold and dollar holdings and the "peril point." It also is signally inadequate in the light of the fact that the United Kingdom's average annual payments surplus of $490 million since 1952 has not been big enough to cover long-term investment, to repay short-term debts and to build up reserves. Thus, exports must rise more than 1% if England's overseas investments are to be sustained and her obligations paid, not to mention the need for enlarging the margin of safety in Britain's reserve position. The *Economist's* observation that "The margin for expansion in the U. K. export trade seems to have nearly disappeared" suggests that London entertains little hope for improving Great Britain's external reserves in 1958. As a result it is likely that the pound will continue to be extremely sensitive to pressures arising from a further impairment of England's export potential—such as higher U. S. tariffs or import restrictions elsewhere —and to a softening in world demand for manufactured goods.

Moreover, the recent recovery in Britain's exchange reserves was not as large as the occasion demands. The improvement was due to some closing of "short" positions against sterling, mainly in the form of leads and lags in commercial payments. A further reduction in short positions is expected, which together with the normal seasonal demand for sterling should help strengthen the pound. Nevertheless, it is expected that a good number of speculators will hold out to await further developments. As the London Times put it: "It will take much longer than a few months to restore the confidence of foreign traders in sterling."

France Makes Gestures Toward Reform

Paris as yet has shown only half-hearted signs of enacting the fiscal reforms that are needed if stabilization of French prices and the balancing of her foreign accounts are to beome more than an ephemeral possibility. Prompt and effective action must be taken if a major crisis is to be avoided. But the strong measures which are required to put France's financial house in order have not yet been enacted. Instead, Premier Gaillard has drawn up some watered-down economy measures which appear to be designed mainly to create the minimum semblance of reform needed to obtain loans from abroad. Furthermore, the Government has given its approval to a long list of price increases which are bound to stimulate and strengthen labor's demands for higher wages.

The International Monetary Fund's managing director, Per Jacobsson, has admitted that "signs of improvement" in the strength of the franc and in France's finances consist mostly of "changes in sentiment, in the climate of opinion, rather than much concrete development." This somewhat reluctant admission is underscored by the fact that what Premier Gaillard calls the "most rigorous budget" since 1945 proposes a deficit of 600 billion francs. At the official rate of exchange this is equivalent to a deficit of $1.5 billion. While the new budget has the rather dubious merit of proposing the smallest deficit since 1952, it is nevertheless glaring evidence that France continues to live beyond her means, and that the new Government does not dare advance harsher measures because the country is still not imbued with that sense of urgency which inspires an acceptance of at least temporary sacrifices.

Forthcoming international loans of about $450 million will undoubtedly stave off a major payments crisis. Finance Minister Pierre Pflimlin has met the stipulation by the International Monetary Fund and the European Payments Union that the French deficit should not exceed 600 billion francs. While this hardly meets I.M.F. standards of credit worthiness, the Fund is responsive to Washington's interest in securing a loan for France. The United States could hardly hope to conduct amicable negotiations for missile bases with a France that is aroused by failure to obtain an I.M.F. credit.

Moreover, while international loans will postpone the necessity for wholesale devaluation of the franc, they will not eliminate the need for achieving a balance in France's trade account. But the effect of further inflation on French export prices is more likely to produce a cut in export trade and may even make it impossible to maintain that balance.

The deficit will impart downward pressure on the franc, increasing the cost of France's raw materials, which accounts for 40% of France's total imports, and must create further inflation.

There are no signs as yet of serious unemployment in France. A modest decline in employment is anticipated as a result of an expected curtailment of activity in the construction, automobile, textile and clothing industries. But the manpower needs for a large standing army in Algeria and possibly in the Cameroons, in the light of new communist inspired uprisings there, obviates any likelihood of widespread unemployment.

Should unemployment ever assume real dimensions, it would further complicate her troubles. Thus France continues to be the most critical trouble spot in Western Europe.

Germany As A Source of Stability

For the answer to the question of where the strength really lies in Western Europe many of Europe's leaders are turning hopefully to West Germany and the increasing signs that the unfavorabe balance of payments between Germany and the other western countries is easing. As yet the evidence is too slim to warrant any conclusions of a long-term character. It is limited to the fact that the German Federal Bank's gold and currency holdings declined by $70 million in November while at the same time Bonn incurred a deficit of $25.8 million with the European Payments Union, the first in five years. Coupled with German industry reports of a decline in export orders, these developments are viewed somewhat optimistically as the beginning

of a trend toward at least an abatement of the German drain on Europe's gold and hard currency reserves.

However real this prospect may be, its effects will not be felt for some time. It will not impinge directly or immediately on the short-term situation. And it is unlikely to becloud the fact that the German payments surplus in 1957 will be only slightly smaller than in 1956. Furthermore, as the German Federal Bank suggests, the decline in German gold and currency holdings is most likely of a transitory nature. It is merely the reaction to the speculative influx of last summer and has little to do with genuine foreign trade transactions. The decline also is due to the fact that German importers are beginning to meet their obligations after delaying payment as long as possible in the hope of gaining from an upward revaluation of the Deutschemark.

Undue importance also is attached to the rapid repayment of Germany's foreign debts as a means of reducing her balance of payments surplus. A special study of Germany's external indebtedness recently published by the Deutsche Bundesbank indicates that the accelerated repayment of a large portion of these debts would be either impractical or would have little effect in reducing present European balance of payments difficulties. Several public and private prewar obligations, amounting to almost 800 million Deutschemarks, fall into this category. Germany's postwar debts to the United States, totaling almost 4.7 billion, also do not lend themselves to a manipulation which would help ease the present intra-European payments difficulties. Neither would the accelerated repayment of certain special U. S. claims, amounting to 350 milion DM.

Thus, the Deutsche Bundesbank estimates that, of the total prewar and postwar debts of about 9 billion Deutschemarks, 5.8 billion have to be excluded as unsuitable for the type of operation that has been suggested as offering the opportunity to relax the pressure on European currencies. Moreover, 930 million of the remaining 3.2 billion Deutschemarks consist of foreign holdings of German dollar bonds. Inasmuch as these are now held almost entirely in the Uniten States and Switzerland, the repatriation of these bonds would not ease the balance of payments problem in Europe.

This also is true of the Swiss claims against Germany which, in addition to the above dollar bonds, exceed one billion Deutschemarks. The reason for this is that Switzerand insists that the repayment of her outstanding claims must take place outside the regular channels of the European Payments Union. As a result of these factors, the total amount which could be used effectively to ease the strain on Europe's money is whittled down to about 1.3 billion Deutschemarks. Of this, little less than half consists of postwar debts owed to Britain and France. The remainder consists of German external bonds now held in various European Payments Union countries.

Another difficulty that would arise from the accelerated repayment of all or part of the residual debt of 1.4 billion stems from the fact that Germany woud have to extend her offer of repayment of prewar loans to those which were issued in hard currency. This means that Bonn would have to repay an amount several times the size of that which would benefit members of the Payments Union. Bonn feels that this would be a high price to pay for the modest results that it would yield.

Some hope for relief is seen in the growth of foreign investments in West Germany. Due to the expansion programs of non-German oil corporations, the flow of foreign capital to West Germany in 1957 was twice as large as the 1956 volume. Further increases are anticipated as a consequence of certain tax incentives which Germany proposes to adopt. These include complete elimination of taxes on capital gains and on distributed corporate profits. German investors are thus likely to derive substantial benefits. But at the same time these policies will further discourage the outflow of German investment capital which had been counted on to ease the strain on European currencies arising from the relative shortage of Deutschemarks.

Indonesia on the Brink of Disaster

Indonesia's economy is likely to shatter into myriad island fragments within the next few months. Complete economic collapse is the probable result of the Indonesian seizure of Dutch banks, hotels, factories, estates and other business. The campaign of anti-Dutch strikes, boycotts and deportation has developed into a movement by Indonesian workers, in many cases led and inspired by Communists, to seize foreign properties. The Government in Jakarta at least tacitly condoned these activities at first and then moved to place Dutch assets under Government control under the pretext of forestalling their seizure by irresponsible elements.

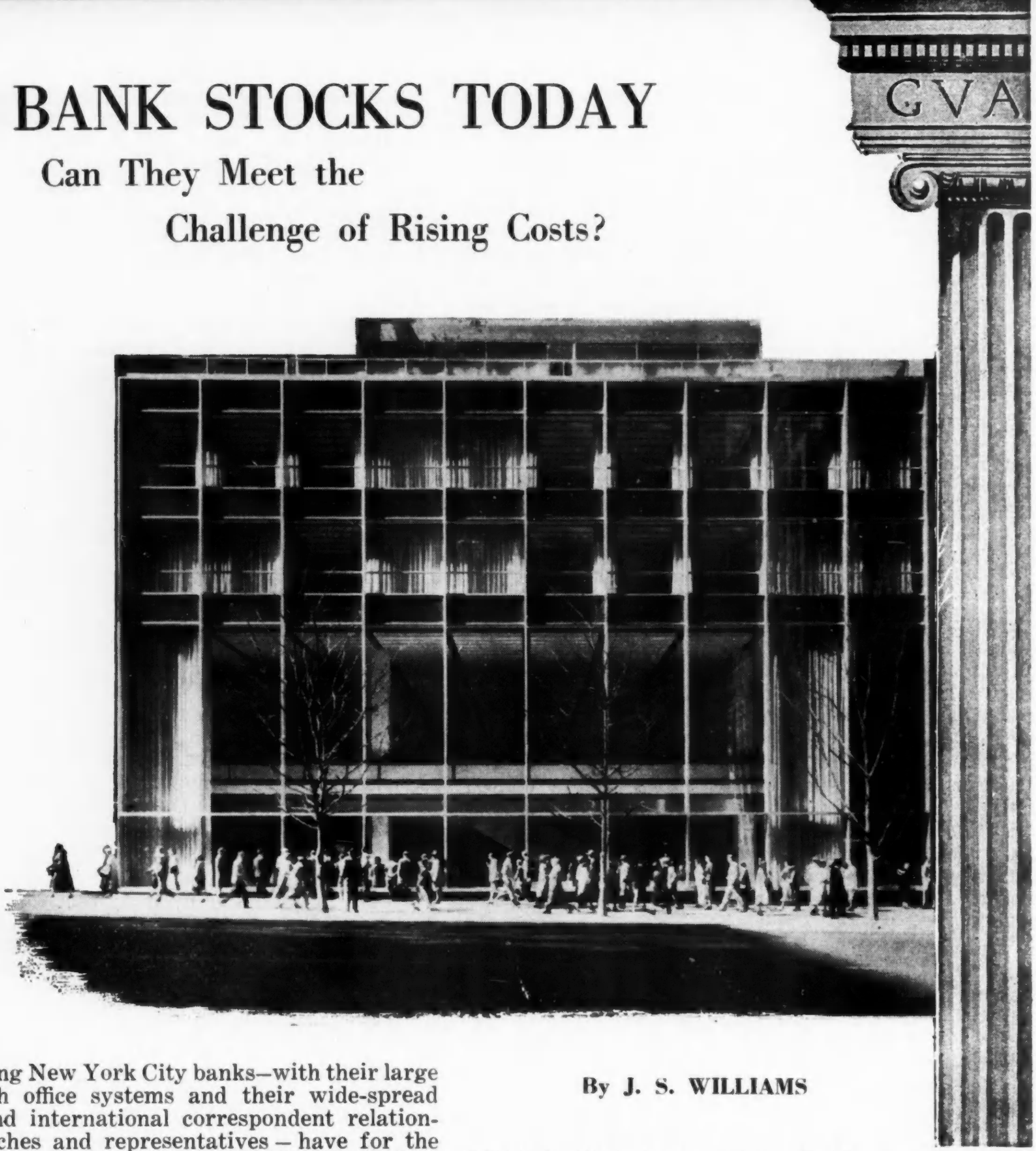
Jakarta's action in seizing Dutch plantations was preceded by a similar move by the Administrator of Northeast Sumatra. At the same time the Council of Central Sumatra released a statement announcing that all Dutch estates and other properties would be placed under Indonesian supervision. Like Jakarta, the Central Sumatra administration justified the move by claiming that it was dictated by a desire to circumvent actions by Communists and other leftists against Dutch enterprises.

The Indonesian Government still insists in maintaining the fiction that it has neither confiscated nor nationalized Dutch properties. Officials claim that they have merely placed them under "supervision." But the true nature of their intentions is revealed by Minister of Agriculture Sadjarwo's statement to the correspondents of the *New York Times* that the present situation would last "until we are satisfied (that) normal relations with Holland are secured." Since the chances of a compromise between Jakarta and the Hague are extremely poor, this means that Dutch properties will not be returned to their owners. The more than 500 rubber, tea, sisal, tobacco, sugar, palm oil and other plantations, as well as Dutch banks and businesses will become the property of Indonesia. Some hope of eventual compensation remains. But Indonesian officials have not yet expressed any interest in the subject.

American and other non-Dutch enterprises have not yet been affected by this outburst of blind nationalism. But the threat is there. The danger lies in the fact that the Communists, who constitute only 16% of the electorate but make up for their numerical inferiority through efficient and disciplined organization, (*Please turn to page* 548)

THE BANK STOCKS TODAY

Can They Meet the Challenge of Rising Costs?



By J. S. WILLIAMS

The leading New York City banks—with their large local branch office systems and their wide-spread domestic and international correspondent relationships, branches and representatives – have for the past years been in the vanguard of higher earnings achievements. In not unexpected fashion, therefore, net operating earnings of this group of banks last year bounded ahead of 1956 record levels by better than 10% on average, good news indeed for shareholders. And while this news is exciting by itself, of equal importance is the continuing sound basic position of the New York City institutions—and indeed of most banks around the country.

Despite the Federal Reserve Board's policy of credit restraint which has been in force during most of 1957, and the relatively high rate of loan activity, the combined deposits of the leading New York City banks held steady last year, with average daily net demand and time deposits rising 0.7% in 1957 to $25.3 billion from $25.1 billion a year earlier. This reversed a slight dip in the 1955-1956 period. Furthermore, the average yield realized by the New York City banks on loans last year equalled 4.40% compared with 4.05% a year earlier. And as a result of the hike in prime rate from 4% to 4½% last August, the average loan yield stood at 4.65% at year-end 1957. Total interest from loans and investments averaged 3.78% in 1957, leaving a very healthy margin above the 1.5% level which has been estimated as the break-even point.

As full year 1957 figures are not yet on hand for more than a sprinkling of New York City banks at this writing, nine months 1957 figures fully illustrate the advance last year in their earnings and assets. Interest on loans easily accounted for the largest part of the rise in gross operating income of the New York City banks last year. For the nine months ended September 30, 1957, interest on loans of this group aggregated almost $511 million, more than 16% above the $439 million earned in the like 1956 period. Other items of income such as service charges, fees and commissions also notched distinct gains last year.

Both assets and deposits of the New York City banks at the end of September last were above the levels at the same time in 1956. Total assets at the end of the third quarter 1957 stood at $33.1 billion, 4.1% ahead of 1957, while deposits stood at $28.7 billion or better than 2.6% above the same level a year earlier. Furthermore, the aggregate capital position of these banks was boosted in 1957 follow-

ing the sale of additional stock by the First National City Bank of New York and the Chemical Corn Exchange Bank. In fact it seems likely that several other New York City banks will come into the market for additional capital as soon as conditions permit.

The sharp money market pressures to which the New York City banks were subjected in the course of this past year required the liquidation of consider--able security holdings, with the result that interest and dividends from this source fell below 1956 levels. The relative scarcity of money available to these large New York City banks was aggravated by the 20% reserve requirements which these Central Reserve City Banks (New York City and Chicago institutions) have been bearing, compared with the 18% required of their Reserve City competitors. The elimination of this 2% differential in reserve requirements would make available a large volume of additional bank credit. Application for such reclassification has been made to the Federal Reserve Board, and affirmative action would have a favorable impact on earnings.

Nor have the stockholders of our banks in New York City been forgotten, as is quickly seen by a long list of dividend increases, extras and stock dividends paid by these institutions during 1957. The past years have indeed been bountiful to owners of bank shares. As a result of higher net operating earnings of the Queen City's banks, last year's dividend payments equalled 59% of net operating earnings, up from the 55% declared in 1956. That the top-rated investment companies have been impressed by these results is underscored by some of their sizable holdings of shares in this category. The Tri-Continental Corporation in its September 30, 1957 report showed the following holdings: 13,000 shares Chase Manhattan Bank, 12,000 shares of the Chemical Corn Exchange Bank, 8,400 shares of the First National City Bank of New York, 9,000 shares of the Guaranty Trust Company of New York and 10,000 shares of the Hanover Bank.

Boston and Philadelphia banks, too, performed well last year, but West Coast institutions, which have had to pay higher interest rates on their savings accounts with a resultant boost in operating expenses, reported somewhat lower earnings last year than in 1956. It seems likely, however, that net operating earnings of these West Coast banks will advance again as the new year progresses, as the larger deposits will now be adding to earnings—and providing of course that the loan volume and the interest rate structure remain relatively stable.

In this respect it is of importance—particularly applicable in analyzing the operating expenses of banks around the nation—that institutions outside of the New York, Boston and Philadelphia areas have a much larger proportion of their total liabilities in the form of savings and time deposits, which bear high interest rates. In the case of the Bank of America, the giant of our American banks, savings and time deposits equal more than 50% of total deposits. Competitive factors will make difficult any reductions in these rates, which account for a good-sized proportion of gross earnings as seen in last year's statements of the West Coast banks.

That the New York banks have an important advantage over interior institutions can be seen by a brief examination of pertinent data. In the New York Federal Reserve District, time deposits constituted only 6.6% of total deposits at year-end 1956, and the proportion of gross income absorbed by interest on time deposits totalled 5.7%. These figures compare with 25.8% and 9.3% respectively in Chicago, and 25.1% and 12.3% in San Francisco.

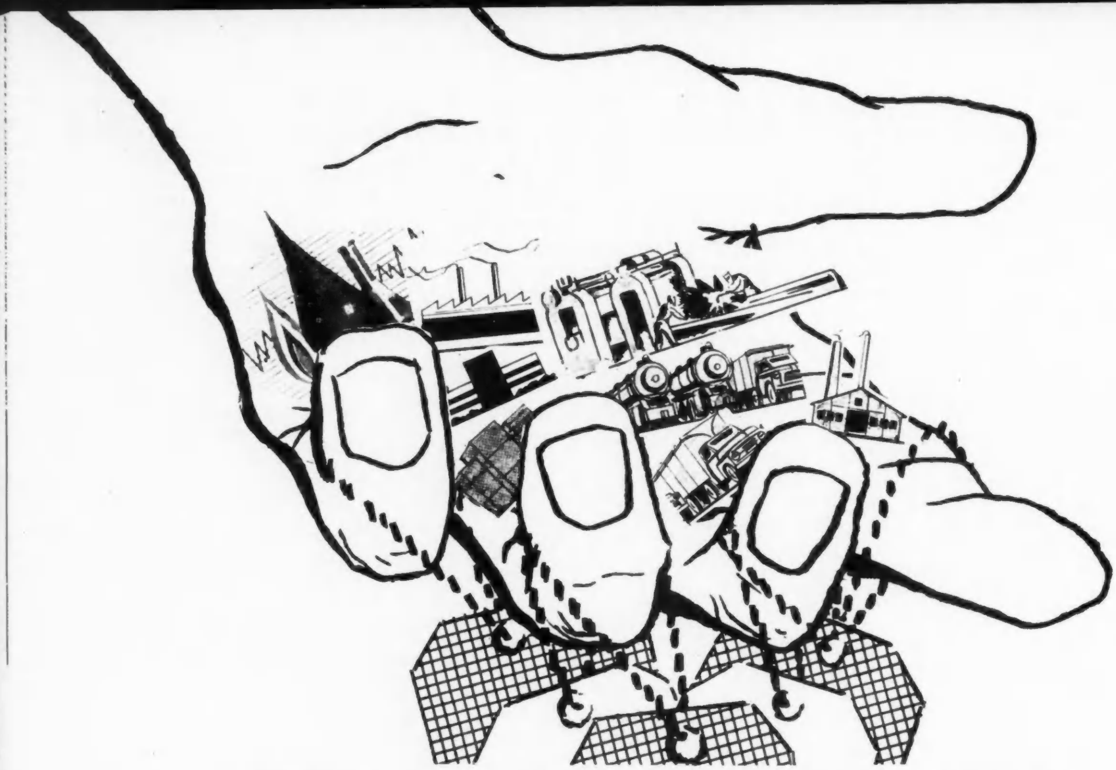
Nation's Banking System Healthy

The nation's large and well-managed commercial banks, it can be said at the risk of over-simplification, operate in a semi-insulated position from the economic cycle! Banks are always in a creditor position – interest on loans tends to rise sharply in periods of economic (*Please turn to page* 544)

Statistical Data on Leading Bank Stocks

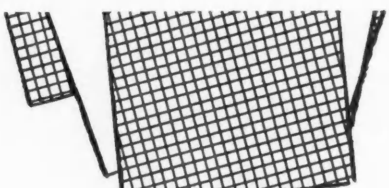
	Total Deposits 12/31/57 (Millions)	Total Deposits 12/31/56 (Millions)	Loans & Discounts 12/31/57 (Millions)	Loans & Discounts 12/31/56 (Millions)	U.S. Gov't Securities 12/31/57 (Millions)	U.S. Gov't Securities 12/31/56 (Millions)	Book Value per Share 12/31/57	Earnings Per Share* 1957	Earnings Per Share* 1956	Indicated Current Dividend	Recent Bid	Dividend Yield
American Trust, San Francisco	$1,539	$1,487	$ 850	$ 839	$ 402	$ 371	$39.75	$3.31	$3.75	$1.60	33½	4.7%
Bank of Amer., San Francisco	9,524	8,993	5,554	5,353	1,874	1,770	22.77	2.81	2.89	1.80	33⅜	5.3
Bankers Trust, N. Y.	2,556	2,484	1,448	1,469	514	422	63.71	5.64	5.02	3.00	62¼	4.8
Chase Manhattan, N. Y.	6,834	6,928	3,737	3,732	1,151	1,073	45.70	4.24	3.78	2.40	48	5.0
Chemical Corn Ex., N. Y.	2,933	2,759	1,468	1,482	480	462	45.11	3.86	3.87	2.30	43½	5.2
Cleveland Trust Co.	1,366	1,389	787	734	345	350	248.22			6.00[2]	210	2.8
Continental Illinois, Chicago	2,394	2,497	1,164	1,167	714	731	91.81	8.36	7.43	4.00	85½	4.6
First National City, N. Y.	6,692	6,672	3,867	3,738	1,156	1,184	58.52	5.02[1]	5.20[1]	3.00	59	5.0
First National of Chicago	2,614	2,649	1,512	1,505	533	572	246.68	23.88	20.56	8.00	307	2.6
First Penna. Bkg., Phila.	998	1,026	536	543	152	153	39.76			2.25	40¼	5.5
Guaranty Trust, N. Y.	2,438	2,542	1,610	1,573	525	688	68.80	5.21	4.70	4.00[2]	66½	6.0
Hanover Bank, N. Y.	1,576	1,654	912	911	262	316	45.42	4.16	3.78	2.00	43½	4.5
Irving Trust, N. Y.	1,578	1,539	806	785	345	398	26.56	2.83	2.56	1.70	31	5.4
Manufacturers Trust, N. Y.	2,966	2,845	1,255	1,200	701	697	41.89	4.06	3.59	2.00	40½	4.9
Mellon National, Pittsburgh	1,753	1,736	1,013	930	375	369	109.08	8.79	7.70	4.00	114	3.5
National Bank of Detroit	1,803	1,854	706	722	654	699	48.60	4.33	4.08	2.00	46¾	4.2
New York Trust	743	733	399	406	151	171	68.20	5.94	5.49	3.50	80¼	4.3
Philadelphia National	935	957	436	463	174	153	32.77			1.90	32¼	5.9
Security 1st Natl., L. A.	2,773	2,338	1,196	878	1,107	1,035	42.72	3.66	3.97	1.60	39¾	4.0

*—Net operating or indicated earnings.
[1]—Includes City Bank Farmers Trust Co.
[2]—Plus stock.



OUT OF THE FRYING PAN...

—Where diversification hasn't paid off



By EDGAR T. MEAD, JR.

● Among a large number of corporations, diversification has become the watchword of progress. Without a comprehensive diversification plan under way, the modern executive seems prone to hang his head in shame, as though to admit he were losing out in the eternal and inexorable march of economic advancement. It has reached a point, indeed, where scarcely a letter to the stockholders or a talk before a financial audience could be deemed complete without a confident reference to the company's advanced state of diversification.

Now that several years have passed by since diversification first became a Way of Life, it is appropriate to turn on the spotlight of inquiry and offer surmises as to how the foremost exponents have fared. All in all, the creation and mixing of rather bizarre bedfellows has been observed and one is inclined to wonder whether extensive diversification has helped or hindered!

One of the primary differences in fundamental philosophy involves whether to diversify horizontally or vertically. In the latter instance, the manufacturer expands and acquires additional production in more or less the same lines. Horizontal diversification on the other hand, implies the extension into different fields from those traditionally followed. In the case of vertical diversification, the plethora of scientific advancements, new techniques and creation of new markets has drawn companies into the manufacturer of diverse new products, principally based on existing raw materials and by-products. A good example is the entrance of petroleum companies, such as Phililps, into the making of plastics, which are based largely on petroleum derivatives. Horizontal diversification suggests the willful and premeditated entry into new fields, while vertical diversification indicates the natural, evolutionary entry into new products based on available raw materials, by-products, plant and scientific facilities, and market outlets.

Necessity A Factor

The urge to explore greener fields has not been, however, entirely haphazard or whimsical, as some combinations suggest. Quite often, the desire to diversify stems from sheer necessity or at least from the recognition that positive action is necessary to stave off ultimate bankruptcy. Hence, we have a considerable list of former marginal coal companies, which in fairly well disguised form, offer clothing, air-conditioners and armored car service, to mention a few of the anomalies.

Diversification has not been limited to the smaller and weaker companies, since example after example can be furnished of blue chip manufacturers who

strive for the achievement of less dependance on one particular market. For example, **Borg-Warner** has for a number of years held an excellent reputation in the production of automobile parts for the large manufacturers. Feeling that competition in the automobile market left something to be desired, and motivated also by the fear that Detroit would eventually integrate its parts manufacturing activities still further, Borg-Warner moved into the refrigeration and air-conditioning business via the York Corporation and into oil well equipment via the Byron-Jackson Company. Three other companies were acquired during 1956 to add to the York and Byron-Jackson Divisions, and two others were acquired to supply cranes and speed reducers for the Industrial Products Division. The addition to total volume of these acquisitions, plus satisfactory sales from regular Borg-Warner products, should produce a volume of around $620 million in 1957, compared with $599 million in 1956, $522 million in 1955 and $380 million in 1954. However, the demand for oil field equipment has been down lately, along with sales of air conditioning equipment and industrial machinery, so that results from the old-line Borg-Warner manufactured lines probably accounted for at least a share of the sales increase.

The effect of price competition, higher wages, increased material costs and the expense of integrating the acquired companies prevented Borg-Warner's earnings from rising along with dollar sales, so that net income per share in 1957 will probably be in the vicinity of $3.85 compared with $4.01 in 1956 and $5.17 in 1955. The price of the common stock has suffered from the downdrift of the general market during the past few months, and has probably also reflected less favorable conditions among the new customers served by Borg-Warner.

The recent price of 28 for Borg-Warner stock is 22 points or about 45% down from the high of around 50 attained in 1956. Whether the earnings and stock market price of Borg-Warner would have fared better had the company elected not to diversify will remain an unanswerable question, but the situation suggests that even the best quality company inadvertently finds itself with acquisitions which may temporarily slow up the progress of earnings.

Diversification an Added Expense

A subsidiary problem of buying companies is the work and expense of achieving integration. In the vertical merger, this is a rather simple task and may produce economies in short order. There are probably going to be many mergers of railroads, air lines, banks, petroleum companies and chemical producers in the future, partly for the purpose of solidifying position, and also to generate greater operating efficiency. With the horizontal merger, it may take months and even years for the parent organization just to take inventory of the newcomer. For example, the **Sperry-Rand** merger has apparently not yet become fully coordinated. Different sources of raw material, specialized manufacturing techniques, and different customers may add up to a loss of time and

Companies Modifying Their Diversification Trend

	1952						1956						
	Net Sales (Millions)	Net Income (Millions)	Net Working Capital (Millions)	Average Market Price of Stock	Div. Per Share	Book Value Per Share	Net Sales (Millions)	Net Income (Millions)	Net Working Capital (Millions)	Price Range 1956-1957	Div. Per Share	Book Value Per Share	Recent Price
ACF Industries	$173.9	$ 7.2	$52.7	37	$1.50	$51.42	$294.5[1]	$ 9.0[1]	$56.5[1]	67⅞-37⅝	$4.00	$85.19[1]	38
Alco Products	349.9	6.4	45.7	19⅝	1.40	26.51	170.3	3.9	44.6	23⅞-11	1.00	37.31	11
Atlas Plywood	32.5	.3	9.1	16	.75	17.90	51.6[2]	d10.2[3]	15.7	15½- 3⅞	.15	8.44[2]	5
Avco Manufacturing	326.5	11.0	88.2	7½	.60	9.46	320.5	d16.3	68.2	7¾- 4⅞		7.83	5½
Bohn Alum. & Brass	51.7	.8	16.0	21	1.25[4]	35.75	51.5	.9	10.6	29¾-14½	2.00	37.02	14½
Borg Warner	353.9	22.9	112.0	24	1.66	21.64	598.7	35.8	186.4	50⅞-25⅞	2.30	30.95	28
Bridgeport Brass	126.7	4.0	19.0	19	1.70	17.83	163.2	4.6	35.8	54¾-27⅜	2.50	34.32	29
Consolidated Foods	195.8	.9	36.0	14⅞	1.25	11.72	332.3[2]	4.0[2]	46.8	18½-14	1.00	21.77[2]	14
Eversharp, Inc.	19.9	1.2	8.1	12⅛	1.40	9.30	19.5[5]	2.0[5]	9.5	20 -12½	1.10	12.15[5]	13
List Industries	31.5	1.0	9.6	3¾	......	5.25	63.3	6.1	20.7	12 - 6⅞	.25	6.47	7½
Merritt-Chapman & Scott	45.4	1.5	8.7	25¼	2.00	2.46	374.0	16.8	83.3	23⅜-14½	1.00[4]	23.03	15½
Penn-Texas Corp.	9.0	.3	.6	12¾	.75	.88	126.0	2.2	37.4	19⅝- 3	.35[4]	13.68	3
Rheem Mfg.	144.5	3.9	20.2	28½	2.30	16.25	173.9	d 9.6	25.5	37⅛-10	1.00	23.15	10
Textron Inc.	98.2	4.7	21.7	14¾	.75	8.57	245.8	6.5	49.7	29¾-10	1.60	16.12	11
United Industrial Corp.	16.7	1.1	6.4	7⅛	.60	10.08	17.9	.9	4.8	7⅜- 5	.30[4]	10.02	8
U.S. Hoffman Machinery	36.4	.5	11.9	7¼	......	4.43	90.8	1.0	8.3	22⅛- 5¾	1.10[4]	4.01	6
U. S. Industries	51.2	1.9	12.1	11½	......	8.66	105.4	4.4	29.8	9¼- 8⅛	1.00	15.48	8½
Ward Industries Corp.	8.6	d .2	6.1	11⅜	......	9.57	20.1	1.1	10.7	22¼- 8	.93¾	16.20	9½
Windsor Industries	12.8	.4	3.9	10½	.25	11.52	11.6[6]	d .6[6]	3.0	10¼- 4	.10	11.12[6]	4

d—Deficit.
1—Year ended April 30, 1957.
2—Year ended June 30, 1957.
3—Year ended 6/30/57, including special charge of $6.3 million or $7.44 a comm. sh.
4—Plus stock.
5—Year ended Febr. 28, 1957.
6—Year ended August 31, 1956.

Predecessor Companies

A.C.F. Industries	— Amer. Car & Foundry
Alco Products	— American Locomotive
List Industries	— RKO Theatres
Penn-Texas	— Penna. Coal & Coke
United Industrial Corp.	— Hayes Mfg. Co.
U.S. Industries	— Pressed Steel Car
Ward Industries	— Martin Parry Corp.
Windsor Industries	— Consolidated Textile

the investment of considerable funds before a return can be realized on the original purchase.

Hand in hand with the integration effort runs the problem of paying interest or dividends on the borrowing which may or may not have had a part in the purchase. When business is good, the diversified company can carry the new organization. When business turns competitively rough, the problems are compounded, often to the point of bringing about a reversal of policy.

A Case History

Avco Manufacturing Company has been in the process of diversifying since 1945, when it supplemented aircraft subcontract work(then running out) with the purchase of the Crosley Corporation. Radio manufacturing was then supplemented by the making of farm machinery through the purchase of New Idea, Incorporated. Thereafter, in fairly regular succession, Avco entered the making of kitchen cabinets, aircraft electronics, appliances (Bendix), other types of farm equipment, television broadcasting, fertilization equipment, and air conditioning. When the kitchen appliance business turned sour, these lines, as well as radio and TV receivers were discontinued. In their place, the company sought out defense contracts, and, at the present time, it is estimated that about 60% of Avco's production is for the Government. This includes aircraft engines, electronic equipment, research, and missile nose cones. What appears to have happened is that Avco timed its activities for the post-war boom in farm equipment and home appliances, was obliged to sell out or close down when business conditions appeared unfavorable, and subsequently reestablished itself in the defense contracting industry.

Consequently, Avco's record of sales has proven both erratic and unpredictable. From the standpoint of earnings, the years 1950, 1951 and 1952 were the best, with an average net income of around $11 million. Profits dwindled more recently, and a deficit was reported in fiscal 1956. Because unprofitable items were disposed of, fiscal 1957 earnings may climb back to several millions of dollars.

Concurrently with lower earnings, Avco's debt reached levels of over $25 million, and working capital was reduced. Book value through the postwar period changed but little, indicating scant improvement in the net worth of the company.

For the time being, Avco will probably keep its plants running to capacity with defense orders, and farm equipment and the remaining appliance lines may hold their own.

It is interesting, nevertheless, that Avco's diversification has in effect "run full cycle". During World War II, Avco was a military contractor, and now, after a spree of outside diversification, Avco is again a military contractor as far as the major proportion of sales is concerned.

Dreary Market Performance

If stock market prices can be said to offer a collective judgment on the earnings and prospects for an industrial corporation, it is evident that the diversification company is not held in great esteem.

Bohn Aluminum is now selling at 14, compared with a high of 25 early in 1957. Penn-Texas shares have plummeted to 3 from a high of 13⅞. Textron is quoted around 10, or half as much as the reported high during the past 12 months. U. S. Hoffman sells at 5⅞, down from 17⅛, U. S. Industries sells at 8, down from 17, and Ward Industries stock has declined from 16½ to 9. Most other stocks in this general group are at their lows. (See statistical table for additional data.)

Diagnosing of Ills

The difficulties encountered by Avco in taking on new lines which subsequently became unprofitable are traceable in numerous other organization. For example, **U. S. Industries** succeeded in closing down its railroad freight car building activities and entered the manufacture of dairy equipment, automobile radiator grills and heavy highway trailers. Under its former name of Pressed Steel Car Company, the manufacturer had decided that railroads were unsatisfactory customers. Later on, it developed that the companies which were purchased also proved to be unsatisfactory, and these were sold or closed down. Recent acquisitions have given U. S. Industries some prominence in the making of pumps, heavy machine presses, and electronics, which are considered to be tough competitive fields.

Ward Industries, formerly Martin-Parry Corporation, sold off the New York and Cuba Mail Steamship Company (Ward Line) but subsequently reentered the shipping business and now serves the Dominican Republic. Ward is chiefly concerned with fabricated steel parts and appliances, including laundry and dry cleaning equipment and vacuum cleaners, and prospects appear no more than average.

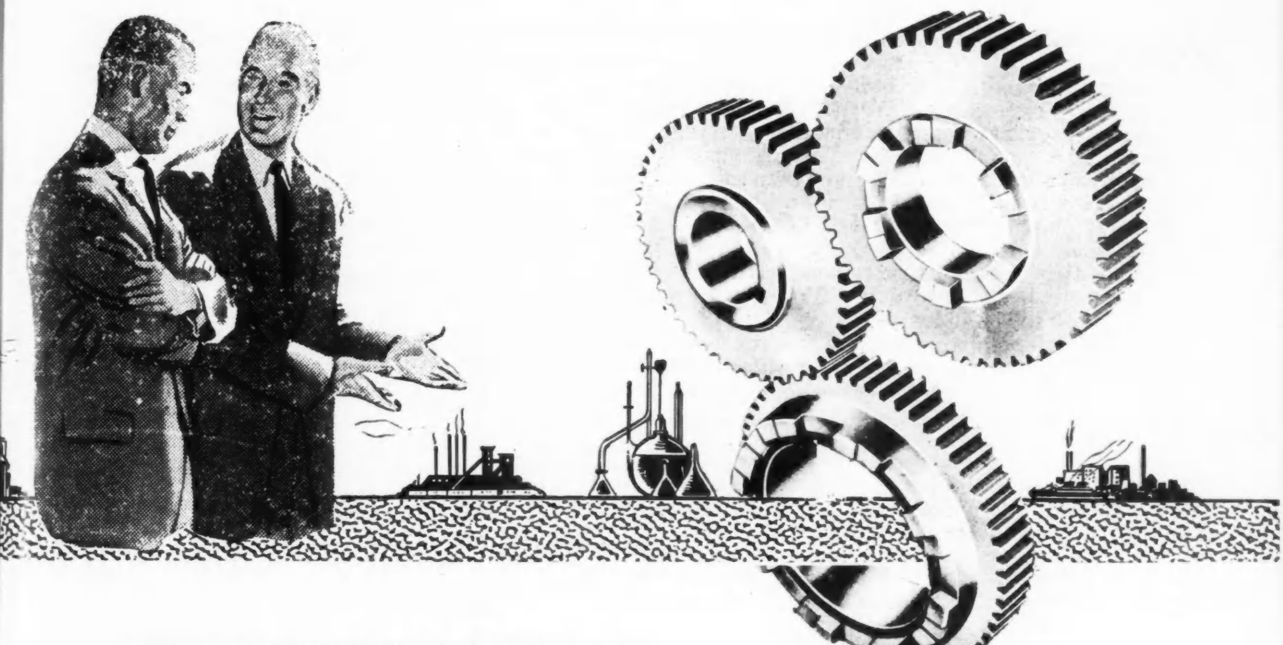
Merchants of Companies

The churning around of companies, divisions, affiliates and subsidiaries sometimes results in satisfactory capital gains, but sometimes as often in capital losses, for the diversification company. A company may be sold off for a combination of cash and bonds, representing a cash gain to the parent company since common and preferred stock may have represented the terms of the original purchase. Where debt was used for purchase, a declining business situation may bring on a precipitous chain of events. The leverage against earnings created by interest payments, amortization, and heavy organizational expenses can act as an extremely serious disadvantage. Properties may then have to be sold at an unfavorable price.

Bellanca Corporation has been in and out of the newspapers during the past few years. Just recently, the SEC suspended trading in the stock for a two week period, pending the outcome of an investigation. Bellanca was caught badly in 1956 when loans were called, and the company was obliged to liquidate an investment in TMT Trailer and Waltham Watch and to sell stock in Automatic Washer Company. Bellanca was trapped in a squeeze, created in part by lack of liquidity and in part by an excess of outstanding debt, some of which was overdue.

Economies in Theory Only

Another problem of the diversified company is the acquisition of irrelevant companies which tie in only looosely with one another. Economies can from time to time be made in (*Please turn to page* 545)



MEDIUM SIZED COMPANIES Successfully Competing with MAJOR COMPANIES

By DAVID BELL

ALL our great companies were small once, and grew by dint of imagination, managerial ingenuity and horse sense. It was only the unusual set of circumstances following World War II that made it difficult for these small companies to gain a foothold. Nevertheless, this period has produced some surprisingly vigorous entities that have demonstrated their ability to maintain their position and even challenge the great companies in certain fields.

In 1948 the author prepared an analysis recommending purchase of Sylvania Electric common stock. The report caused much caustic comment the gist of which was—"How do you expect Sylvania to compete against General Electric, Westinghouse and Eastman Kodak? The company doesn't have a chance against those giants." There didn't appear to be any argument against these conclusions, except that the new management headed by Mr. Don Mitchell, then one of the youngest corporation presidents, seemed capable and alert with an excellent program of rehabilitation and expansion. Over the years Mr. Mitchell and his management team made that 1948 recommendation look good as in the following decade the company showed greater percentage increases than any of its huge competitors in sales, book value, etc. In 1948 sales were slightly under $100 million while in 1957 they were more than triple that figure. It is true that in the same period General Electric's sales rose from $1.6 billion to $4.1 billion.

The success of **Sylvania** in competition with some of the largest companies in American industry, while exceptional, is not unique for while the general excellence and outstanding ability of management was responsible for the success of this company over the past ten years, there are numerous other instances in American business where smaller companies have successfully competed against the giants in their industry by means of executive ability, outstanding research, etc. *Also, occasionally, while a small company appears to be in competition with a larger concern, it is actually in competition with only a small part of the larger firm's operation.* The smaller concern actually may have more scientists engaged in research on one particular product than the larger company. These situations run the length and breadth of American industry.

Foremost Dairies is however, a unique example of a small company expanding so rapidly that it was the subject of a Federal Trade commission complaint (partially dismissed), that its acquisitions lessened competion. Sales in 1947 for this company were $29 million but by acquiring other concerns for stock or cash, sales were built up to $120 million by 1956 with a further sharp increase due for 1957. By comparison National Dairy, largest in the industry, through expansion and acquisition showed an

increase in sales in the period of slightly more than 40 per cent.

The comparatively young industry—air conditioning—grew very rapidly after World War II and there were many casualties among companies which could not stand the competitive pace. The remarkable growth of Carrier Corporation, industry leader however, — sales $23 million 1946, $193 million 1957 — were about matched by the **Trane Company** which reported sales of $13 million in 1946 and $74 million 1956. Now that the industry has matured, and its rate of growth has slowed down. Trane has established its place in the industry.

Another small company which has competed successfully and which continues to improve its position is **Magnavox.** The growth of Radio Corp., leader in the electronics industry has been unusually sharp as sales have about doubled since 1950. This, however, has been more than matched by Magnavox which showed sales of $32 million in 1950 and sales of $87.5 million for the fiscal year ended last June 30. Improvement continues into the current fiscal year and Mr. Frank Freimann, president, recently stated that for the first half ended December 31, sales set a record. First quarter sales were up 13 per cent.

The success of Magnavox in this extremely competitive industry is due mainly to its emphasis on quality production and its method of marketing its TV, radio and Hi-Fi sets. Marketing of most TV-radio-phonograph products is direct to 2000 retail dealers, each having semi-exclusive territory and price maintenance arrangements.

The company also is in the forefront of the industry in the development and promotion of hi-fidelity phonographs and in the 1957 fiscal year such sales accounted for 21 per cent of total output. The current rate of production is somewhat higher and should cushion any decline in the sale of radio and TV sets. The outlook is also excellent for expansion of the company's production of electronic components for the Government.

Some companies in entirely different industries occasionally compete in a particular product. **Brunswick Balke—Collender Company** the leading manufacturer of bowling alleys and bowling supplies has furnished strong competition in pin-spotting machines to American Machine & Foundry, the originators of the automatic pin-spotter, (first installations made in 1951). In 1957 Brunswick installed approximately 6600 machines compared with 2000 in 1956 while A.M.F. installed about 9000. The effect on earnings of the pinspotter will prove to be even more pronounced in Brunswick, as net income for '57 is estimated at around $5.50 a share compared with $3.08 in 1956. A.M.F. is expected to report around $3.75 versus an even $3.00 for 1956. It must be recognized that as most bowling alleys become equipped with automatic machines the rate of growth will decline.

An example of a small company competing successfully with a larger one even though each produces similar products is **Penick & Ford** and **Corn Products Refining Company.** Both are producers of dextrose, starches, sugar, syrups and corn oil with corn as the base. Corn Products plants have a daily corn capacity of 200,000 bushels while those of Penick & Ford grind just one fourth that amount. Both are affected proportionately by fluctuations in the corn market. Growth of Corn Products, however, has been more spectacular over the years with sales having more than doubled in the past ten years, against a 65% increase for Penick & Ford which started from a low level. Greater diversification and new products are expected to add materially to Corn Products sales and its industry lead. However, newer products are also expected to aid in increased sales and earnings for Penick & Ford if the company's rate of growth of the past decade should be at least maintained in the future.

The Lorillard "Comeback"

Probably the best success story of 1957 was the comeback of the **Lorillard Tobacco Company.** In 1956 with sales having declined some 30 per cent from the previous year, earnings down, and dividend payments lower, the Board of Directors elected a new president Mr. Lewis Gruber. Under Mr. Gruber, sales climbed sharply and the reversal in sales trend probably was unprecedented in the industry as the company climbed from the lowest sales year in recent history to the best sales and earnings record since incorporation in 1911.

Excellent merchandising, exploitation of the company's new filter tip, Kent, and a strong plug by Readers Digest were reasons for this sensational turn-around. Due credit, however, should be given President Gruber and Director of Research, Dr. Harris Parmelee, for their astuteness in developing the Kent filter from a declassified AEC filter substance. Reduction of the price of the cigarette from the premium level to a popular-priced brand was a further sales stimulant.

American Tobacco, Reynolds, Philip Morris and Liggett & Myers all will report higher sales and earnings for 1957, but none of them will have performed as sensationally as Lorillard. In fact, Lorillard's sales in the first nine months alone exceeded by $13 million the entire year of 1956.

Chain Stores Grow Rapidly

Probably as in no other industry in the post-war years, have individual companies in chain groceries grown from small operations to multi-million dollar concerns. In 1934 two brothers who had operated a small meat market in Pennsylvania decided to branch out with an idea they developed for a grocery supermarket. This was the original of the **Food Fair Company** now a concern with an annual sales rate of $575 million and one of the fastest growing American enterprises. Also, showing phenomenal growth in its development of the grocery supermarket has been the **Grand Union Company** which ten years ago contained in its corporate set up a group of wagon routes selling groceries and tea door-to-door and a chain of small grocery stores. Under the guidance of Lansing Shield, president and a new Board of Directors, sales rose from $100 million to about $400 million presently. Neither of these companies are challenging A & P's $4.5 billion in sales but exploitation of the supermarket idea, while A & P lagged, enabled these firms to become giants on their own. Another company fast developing in chain supermarkets is the **Winn-Dixie Company.** Sales of this southern food chain were $113 million in 1950 versus $513 million in the 1957 fiscal year ended June 30—much of this growth was generated by acquisitions. Another factor which should be mentioned regarding the sharp growth of these concerns is the fact that

16 Successful Medium-Sized Companies

	Industry or Product	Major Unit In the Industry	1st 9 Months — 1956 — Net Sales (Mil.)	1956 — Net Per Share	1957 — Net Sales (Mil.)	1957 — Net Per Share	1957 Div. Rate	Recent Price	Price Range 1956-1957	Div. Yield
Air Reduction	Industrial Gases	Union Carbide	$123.7	$3.21	$140.9	$3.28	$2.50	50	65¾-36⅜	5.0%
Beckman Instruments	Instruments	General Electric	8.4[1]	.29[1]	10.5[1]	.22[1]	[3]	24	47¾-21	....
Bruns.-Balke-Collender	Bowling Pinsetters	Amer. Mach. & Fdry.	37.4	2.16	85.3	3.53	.80[4]	34	37¾-12¾	2.3
Cons. Electrodynamics	Instruments	Minn. Honeywell Reg.	16.2	.91	22.4	.55	.40	30	54¾-21	1.3
Foremost Dairies	Dairy Products	National Dairy Prod.	285.4	1.06	310.2	1.15	1.00[5]	14	21⅛-13⅛	7.0
Gerber Products	Baby Foods	Beech-Nut Life Savers	53.0[2]	1.91[2]	59.8[2]	1.92[2]	1.80	44	62½-39	4.0
Korvette (E. J.) Inc.	Dep't Stores	Allied Stores	54.8[6]	1.26[6]	71.0[6]	1.02[6]	.....	10	25⅞- 9	....
Lorillard (P.) Co.	Tobacco	American Tobacco	150.6	.91	190.9	1.85	1.95	32	34 -15⅛	6.0
Magnavox Co.	T.V. Radio-Eletronics	Radio Corp. of Amer.	17.0[1]	.85[1]	19.2[1]	.95[1]	1.50[4]	29	44 -28⅛	5.1
Penick & Ford	Corn Products	Corn Products Refining	n.a.	1.72	n.a.	2.13	1.65	30	30¼-23¼	5.5
Polaroid	Cameras	Eastman Kodak	22.4	.63	30.5	.87	.20	45	53¼-11½	.4
Skelly Oil	Petroleum	S. O. of New Jersey	185.9	4.06	196.5	4.91	1.80	51	80¾-32	3.5
Sunbeam Corp.	Elec. Appliances	General Electric	59.3	1.52	59.3	1.31	1.65	44	57¾-32	3.7
Texas Instruments	Instruments	Westinghouse Elec.	29.8	.45	48.1	.78	.....	26	31½-11⅝	....
Trane Co.	Air-Conditioning	Carrier Corp.	55.0	1.97	60.2	1.94	.90	44	56½-29⅝	2.0
Winn-Dixie Stores	Grocery Chains	Great Atl. & Pac. Tea	106.6	.32	123.6	.42	.90	29	29 -18⅞	3.0

n.a.—Not available.
[1]—1st Fiscal quarter ended Sept. 30.
[2]—6 months ended Sept. 30.
[3]—Paid 3% in stock.
[4]—Plus stock.
[5]—Plus 1/10 share Foremost Finance & Equipment Co.
[6]—Year ended Sept. 30.

each operates in a certain section of the country while A & P's operations are nationwide. Grand Union operates in 12 Eastern Seaboard States and Canada, Food Fair in 10 Eastern and Southern states and Winn Dixie in 9 Southern states. This wise geographic concentration has aided immeasurably in the profitable operations of these chains.

Problems of Small Auto Producers

The most difficult industry for a small company to operate successfully is the automotive industry where casualties have been so heavy in the past 50 years that only three companies are now operating profitably. They are, of course, the industry leaders, General Motors, Ford and Chrysler. Intensive saturation advertising plus nationwide dealer representation are probably the reasons for the success of the Big Three against such well entrenched older firms as Studebaker-Packard and American Motors (Nash-Hudson). For a brief period after World War II it appeared that a new automotive giant was in the making in Kaiser-Frazer but this company passed out of the picture with disastrous losses. Such older line companies as Reo and Willys-Overland also ceased to exist as manufacturers of automobiles. Currently with emphasis on its Rambler, and production increasing rapidly, **American Motors** appears to be making a comeback. The fourth quarter 1957 operations of this company will show black figures for the first time in years. With its Rambler and Metropolitan, American Motors is well ahead of its larger competitors in the small car field as none of them have a small car in production. American may thus be the smaller company that succeeds in bucking the trend of liquidations and takeovers in the automotive group.

Smaller companies in the steel industry currently seems to be having as much difficulty in attaining profitable operations as those in the automobile industry. While earlier earnings reports were favorable in the first half of 1957 for some of the smaller concerns, they are now operating at 50 per cent of capacity or less. An exception to the trend, however, is the **Lone Star Steel Company** of Texas. This enterprise, which produces mainly oil company goods has the advantage of location as it produces pipe in the area is which it is being used and has the advantage of lower freight rates over its larger competitors. In each of the first three quarters net income of Lone Star was ahead of the like 1956 quarter and sales and earnings for the year should be at new peaks.

The **Gerber Products Company** was originally incorporated in Michigan as a canning company as far back as 1901 with operations confined to the small area served and sales also limited. But in 1941 the present title was adopted and the sale of baby foods was exploited and expanded. Large sales, however, were not generated until the post World War II period. In 1946 sales reached $20 million and in 1951 with the birthrate expanding, excellent promotion and a good product, sales rose to $54 million. In the fiscal year ended March 31, 1957 sales topped $108 million. For the first six months of the current fiscal year sales were some $8 million higher than the like 1956 period.

Gerber's record compares very favorably with Beech Nut also a large producer of baby food although Gerber competes with Beech Nut only in baby food. Beech Nut also manufactures chewing gum and candy mints. In 1946 sales of Beech Nut were more than double those of Gerber but in 1956 sales were only $14 million above Gerber.

From the foregoing it is evident that while the larger companies on the American industrial scene have done exceedingly well in the past decade, smaller companies can still compete successfully if well managed and if they have the product to sell.

In the period ahead, there will doubtless be many more companies that will succeed in the competitive struggle against the major companies. This is especially true in the dynamic new fields opening up as a result of recent scientific achievements. For in these areas, ingenuity and imagination will be the most important resource a company can possess. —END

PROSPECTS FOR INSURANCE STOCKS IN 1958

By W. A. LUKENS

IN 1957 the market performance of insurance company stocks, both fire and life, was far below the standards established by this group prior to the peak levels reached in mid-1955. In other words, 1957 was a repetition of the uninspiring 1956 performance. Toward the end of last year, however, several of these stocks began to show recoveries from their lows, reflecting the belief or hope that the worst is over and that the future holds better prospects for these companies.

As far as the fire and casualty stocks are concerned, it would hardly seem likely that 1958 will be as bad as 1956 and 1957 were from the standpoint of underwriting loss ratios. The market decline in these shares from the 1955 highs has constituted a direct reflection of the poor underwriting results experienced by fire and casualty insurance companies in 1956 and again last year. An explanation of the background and reasons for the unfavorable showing with respect to underwriting earnings will be outlined herein. Suffice it to say at this point that, barring any unforeseen catastrophes, fire and casualty companies should show better earnings in 1958.

Life insurance companies generally had another record year in 1957 from the standpoint of sales and earnings, but the stocks of these companies did not show any marked improvement. This may be due to the fact that this group of stocks moved ahead so rapidly in the 1945-1955 decade that a breathing spell was required. Growth stocks generally are the most sensitive to changes in market psychology. Life insurance stocks, which pay very low cash dividends and produce negligible yields, have suffered from a cooling of investor enthusiasm which had projected high growth rate trends into the future. It is expected that this group will improve as further benefits are obtained from increased sales, higher interest rates on invested funds and improvement in underwriting experience. However, the future appreciation rate in life stocks may be slower than it was in the period immediately following the discovery of this group of securities as a neglected and grossly undervalued segment of the securities market.

Fire and Casualty Companies

In order to provide a basis for appraisal of the present position and prospects of fire and casualty insurance companies generally it may be helpful to sketch briefly certain background information relating to the industry.

Stock fire and casualty insurance companies, which write about two-thirds of all the property and liability insurance, have total assets of about $17 billion and net premium value of over $8 billion. These large figures compare with 1946 amounts of $6.6 billion and $3 billion, respectively. The growth rate of the industry has been rapid, and is expected to continue in line with the increase in the insurable wealth of the country. As the country's population grows, and as the number of homes, factories, stores, schools and motor vehicles rise, so will the need for protection against loss increase. Of course, the changing value of the dollar and the development of many new forms of protection, especially in the fields of accident and health insurance, have been and are continuing to contribute to the industry's growth.

The insurance business is a regulated one. Insurance laws of the various states, recognizing that insurance is an indispensable factor in our economy, require that insurance companies charge rates that are fair and reasonable, and which should assure enough income over a period of years to pay losses and expenses and leave a margin for profit and contingencies. This system of regulation, however, is characterized by inherent lags which arise from the fact that rates must be supported by statistical data, and that it takes time for new rates to be approved and to be placed in effect on policies as they come up for renewal. Thus, in periods of rapidly increasing costs and prices the effectuation of rate increases and their full reflection in earnings tends to lag behind the need for higher rates.

Another characteristic of the fire and casualty industry is the dual nature of its operations. Earnings are derived both from underwriting activities and from return on investments. The investment side of the business is important, providing a steady flow of income to these companies. The assets of fire and casualty insurance companies consist chiefly of cash and marketable securities, including high quality bonds and stocks. Most of the fire and casualty insurance companies have enjoyed substantial market appreciation in their stock holdings over the years, although the recent market set-back erased a fractional part of such gains in the last quarter of 1957. The net investment income provides the basis for dividend payments – usually all underwriting earnings are ploughed back and about half of net investment income is retained in the business. Currently a number of fire and casualty insurance companies have underwriting losses greater than their net investment income However, in practically all cases surplus built up over years of reinvestment of underwriting profits will continue to permit the payment of (*Please turn to page* 538)

Life Insurance Industry Data

	Life Insurance in Force (In Billions)	Admitted Assets (In Bililons)	Death Rate Per Thousand	Net Rate of Interest Earned on Invested Funds: Before Income Taxes	After Income Taxes
1957 (Estimated)	$456.0	$101.3	9.6	3.74%	3.43%
1956	412.6	96.0	9.4	3.63	3.33
1955	372.3	90.4	9.3	3.51	3.23
1954	333.7	84.5	9.2	3.46	3.24
1953	304.3	78.5	9.6	3.36	3.15
1952	276.6	73.4	9.7	3.28	3.07
1951	253.1	68.3	9.7	3.18	2.98
1950	234.2	64.0	9.6	3.13	3.00
1949	213.7	59.6	9.7	3.06	2.98
1948	201.2	55.5	9.9	2.96	2.96
1947	186.0	51.7	10.1	2.88	2.88

Data on Leading Life Insurance Company Stocks

	Market Data: 1955 High	At 12/31/56	At 12/31/57	% Decline from 1955 High	Per Share: 1956 Adj. Earnings[8]	Present Div. Rate	Yield	% Payout	Price Earnings Ratio	Estimated Total Equity Per Share At 12/31/56[8]	Market Price As % of Est. Total Equity	% Increase In Life Insurance in Force 1946-1956
Aetna Life	292	170	183	37%	$15.63	$3.40	1.8%	21%	11.7	170	107%	195
Columbian National	121	74	64	47	5.46	2.00	3.1	36	11.7	95½	67	103
Commonwealth Life	19¼[1]	17½[1]	17	11	1.66	0.20	1.1	12	10.2	13¾[1]	123	225
Connecticut General	300[2]	254	236	21	17.74	2.00	.9	11	13.3	198¾	118	294
Continental Assurance	188½[3]	118	112	40	6.57	1.20	1.0	18	7.0	61⅛	183	508
Franklin Life	70½[4]	58¼[4]	54	23	2.65	0.60	1.1	22	20.3	16⅞[4]	321	435
Gulf Life	34¼[5]	27⅞[5]	20¾	136	2.07	0.50	2.3	24	10.0	18⅞	110	171
Jefferson Standard	108[6]	101½[6]	68	37	4.67	1.25	1.8	26	14.5	58¼	116	172
Kansas City Life	2000	1130	1050	48	120.11	8.00	.7	6	8.7	123½	85	76
Life Insurance of Va.	168	100½	97½	41	9.80	2.40	2.4	24	9.9	114¼	86	119
Lincoln National	273	206	168	38	16.93	1.75	1.0	10	9.9	142⅛	118	240
Monumental Life	100	73	69	31	6.61	1.40	2.0	21	10.4	66⅛	104	76
National Life & Accident	107½	87½	92½	14	8.04	0.60	.6	7	11.4	61	151	184
Travelers Insurance	123	67½	72¼	41	6.69	1.10	1.5	16	10.8	70	103	154
United States Life	45¼[7]	27¾	26½	42	2.31	0.13	.4	5	11.4	18⅛	146	418

1—Adjusted for 33⅓% stock dividend paid in 1957.
2—Adjusted for 100% stock dividend paid in 1956.
3—Adjusted for 23% stock dividend paid in 1956.
4—Adjusted for 50% stock dividend paid in 1957.
5—Adjusted for 10% stock dividen dpaid in 1957.
6—Adjusted for 25% stock dividend paid in 1957.
7—Adjusted for 2 for 1 split and 100% stock dividend in 1956.
8—Includes equity in increase in life insurance in force and in amount in force valued at $15 per M for ordinary, $5 per M for group and 50% of annual premium for industrial.

FOR PROFIT AND INCOME

Guess

December brought appreciable net declines in the industrial and rail averages, a moderate gain for utilities. The performance was contrary to the seasonal "odds", as indicated by December net gains by the industrial average in 43 prior years since 1897, net declines in only 17. This is the season for guessing. There is no harm in that, if one does not take it too seriously while waiting for the market to tell more of its own story. The guess here is that the October low for the industrial average will be extended by roughly 10% or so, between now and Spring. A fall on that order will establish at least an intermediate bottom of some duration, and possibly a final bottom for this cycle. In short, our tentative thinking is that selective buying opportunities may now be no great distances ahead; but that most cyclical stocks and growth stocks will have to drop materially from current levels to become attractive.

1957-1958

The Dow industrial average closed 1956 at 499.47, rails at 153.23, utilities at 68.54. The 1957 closings were 435.69, 96.96 and 68.58, respectively. Thus, industrials lost considerable ground on the year and rails took a bad beating, while utilities were little changed. Continuing the guessing game—not only without guarantee, but definitely subject to later revision—where might they stand at the end of this year? The guess here is a net gain of 5% to 8% for utilities; 8% to 12% for the industrial average; and 15% to 25% for the volatile rail average. If the latter seems large, bear in mind that 25% would only take it back to where it stood around mid-October, 1957, and would make up less than a third of its maximum prior decline up to this writing. Sound reasonable or not? Time will tell.

Weak

The list of stocks performing poorly at this time is a long one. A few samples are Allied Stores, Alcoa, American Airlines, American Smelting, American Viscose, Anaconda, Bethlehem Steel, Carrier, Chrysler, Continental Oil, Ford Motor, Halliburton, General Motors, Montgomery Ward, Pullman, Reynolds Metals, Timken Roller Bearing, United Fruit, U.S.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1957	1956
Dresser Industries	Year Oct. 31	$4.60	$3.97
Canada Dry Ginger Ale	Year Sept. 30	1.73	1.51
Mergenthaler Linotype Co.	Year Sept. 30	6.03	3.94
Fluor Corp. Ltd.	Quar. Oct. 31	.79	.51
Aeroquip Corp.	Year Sept. 30	2.30	1.65
Stanley Warner Corp.	53 weeks Aug. 31	1.82	1.47
Guantanamo Sugar Co.	Year Sept. 30	1.98	.48
Ranco Inc.	Year Sept. 30	2.74	2.39
Twentieth Century-Fox Film	13 weeks Sept. 28	.59	.38
Norfolk & Western Rwy.	10 mos. Oct.	6.55	5.77

Steel, U.S. Rubber and Westinghouse Air Brake.

Firm

Stocks making a particularly good showing in the recent market are not too numerous. Some of them are: American Stores, Corn Products, General Cigar, General Foods, Penick & Ford, Procter & Gamble, Quaker Oats, Southwestern Public Service and United Biscuit.

Duration

The Dow industrial average recorded tops of 521.05 in April, 1956, 520.95 in August of the same year and 520.77 last July. With the differences fractional, that represents a triple top for all practical purposes. But the Dow historian will necessarily take the top figure, from which he concludes that we are in a bear market which is already about 20 months old and would reach two years by April. Few bear markets have lasted much longer than that. There cannot be any splitting of hairs about the rail average. It has been in a major downtrend since May, 1956, or for about 19 months up to this time.

Stock Groups

The triple tops cited, reflected shifting upside leadership. Not a single stock group had a 1956-1957 triple-top pattern, although a few were fairly close to it, including auto parts, finance companies and railroad equipments. The bullmarket tops for the stock groups have been widely spaced. Those which topped in 1955 include air transport, automobiles, liquor, soft drinks, confectionery, finance companies, dairy products (this one as early as 1954), farm equipment, motion pictures, rayon and textiles generally, radio-television, department stores, shoes and sulphur. Thus, the bear markets in most of these groups already range up to around 30 months. Some may either have been completed or might not have much further to go.

The 1956 Tops

Groups topping in 1956, some by spring, others not until late in the year, included aluminum, aircraft, building materials, chemicals, coal, copper, metal fabricating, rail equipment, paper, railroads, shipbuilding, steel. These downtrends range from roughly 13 to 20 months duration at this time.

Shortest Declines

Stock groups recording their highs in 1957, mostly last July and accounting for No. 3 of the Dow average's triple tops, were auto parts, drugs, electrical equipment, finance companies, machinery, utilities, office equipment, oil, shipping, sugar, tires and tobaccos. The latter made its high to date only recently and is close to it now. It is in a bull trend. So are utilities; and probably drugs, though the latter group is off moderately from its best level. All of the declines within this list are, of course, relatively brief to date, but some have nevertheless been severe, especially in the case of oils and machinery.

Take Your Pick

The duration and scope of a decline in a stock group, or in an individual stock, is a fallible guide in stock selection for new buying purposes. Those who put much weight on technical evidence will want to see bottoming-out indications on the charts. Some of these, and all "fundamentalists", will want to see basis for belief that the reasons for decline have been largely or fully discounted, that existing vulnerability is below average, and that, looking six months or more ahead, there is probably more "percentage" on the upside than the downside. Stock groups which appear either to have put their lows behind or to be in a bottoming-out area include aircrafts, finance companies, containers, food brands, food stores, small-loan stocks, baking, drugs, farm equipments, electronics, electric utilities, gas distrbutors, soft drinks and tobaccos. There are others which seem less vulnerable than the industrial average at this stage, which may take more time to bottom out definitely and in which selective buying opportunities might be found on relatively moderate price concessions. These include air lines, building materials, chemicals, glass, liquor, gas pipe lines, coal, paper, metal fabricating, radio-television, shipbuilding, tires and even some textiles.

More Dubious

There are others in which, on both a technical and fundamental view, the downside risk may still be considerable, and in which basis for renewed major rise for some time to come is not foreseeable. These include aluminum, automobiles, air conditioning, auto parts, machinery, oils, non-ferrous metals, motion pictures, railroads, rail equipments and steels.

Oil Demand

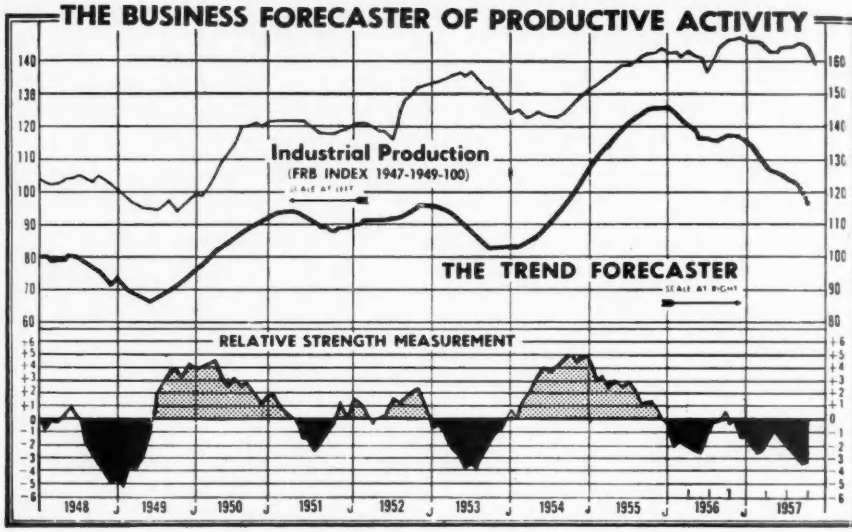
Domestic consumption of oil products declined slightly in 1957 for the first time in the postwar period. One factor was mild average weather early in the year, adversely affecting demand for fuel oil. Use of gasoline gained less than 1.5%. Non-necessitous automobile driving probably was held down by less favorable economic conditions and by reaction to increasing traffic congestion. Past growth in demand for oil products has been much less steady than some imagine. For instance, it was as little as 0.5% in 1949, as much as 12.1% in 1950. Again, it was 9% in 1955, dipping to 3.5% in 1956. Industry sources hope for a 1958 gain of 2% to 3%. It will be a so-so year. Over-supply of crude oil and refined products, threatening further erosion of the price structure, remains to be adequately corrected. On average, earnings will do well to equal 1957's; and it seems more likely, on present indications, that they will be lower. The stocks are unlikely to regain their earlier high degree of investment popularity any time soon.

(Please turn to page 550)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

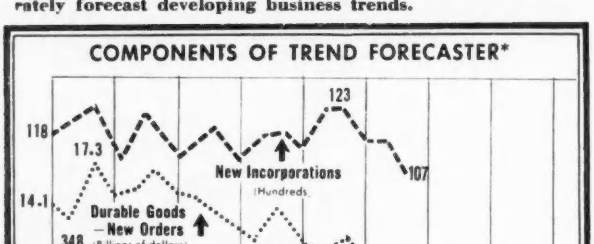
		1957	1956
Cudahy Packing Co.	53 weeks Nov. 2	$1.05	$3.12
Diana Stores Corp.	Quar. Oct. 31	.24	.32
Marathon Corp.	Year Oct. 31	2.29	2.53
Allied Stores Corp.	Quar. Oct. 31	.79	1.10
Hamilton Watch Co.	Quar. Oct. 31	.94	2.35
National Airlines	12 mos. Sept. 30	2.38	4.02
Atchison, Top. & Santa Fe	10 mos. Oct. 31	1.58	1.94
Bullard Co.	9 mos. Sept. 30	.56	1.51
Royal McBee Corp.	Quar. Oct. 31	.55	.99
Texas & Pacific Railway	10 mos. Oct. 31	8.72	14.36

the Business



Business Trend Forecaster *

*With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(*)—Seasonally adjusted except stock and commodity prices.
(a)—3 month moving average.

This we have done in our new *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

When the *Forecaster* changes its direction up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

In the latest month for which figures are available, the **Relative Strength Measurement** has remained below the minus-3 level indicative of business recession.

In November, business failures deteriorated, after some improvement in October. New orders for durables also continued in the very low range that prevailed during the third quarter, and hours worked continued to decline. Commodity prices and stock prices fell further, and new business incorporations were less than in October (after seasonal adjustment). Housing starts were the only positive element in the November figures, as they continued their shallow rise of the past several months.

The aforementioned changes describe the relatively short month-to-month movements of the components of the **Trend Forecaster**. On a longer-term cyclical basis, seven of the eight components are in a declining phase and it is probable, on the basis of preliminary evidence ,that this preponderance of declines continued into December. With the **Trend Forecaster** still declining rapidly, the forecast for further recesison remains unaltered.

Analyst

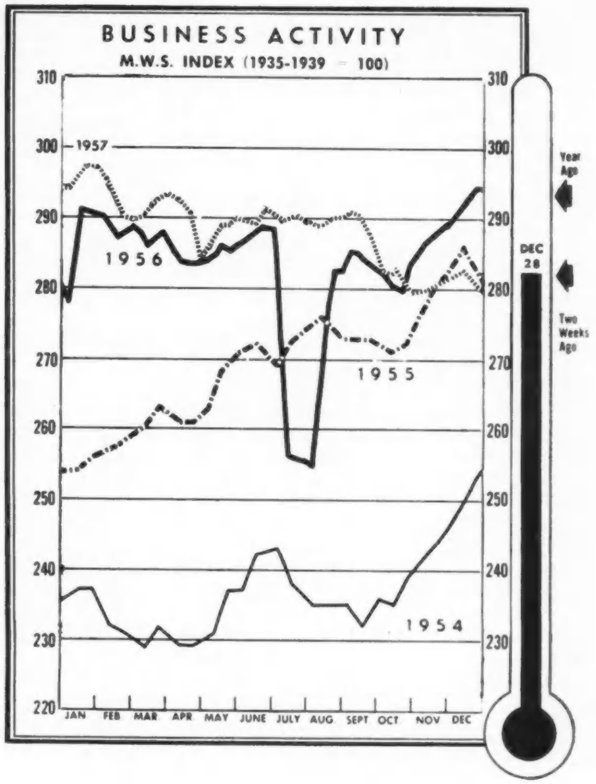
CONCLUSIONS IN BRIEF

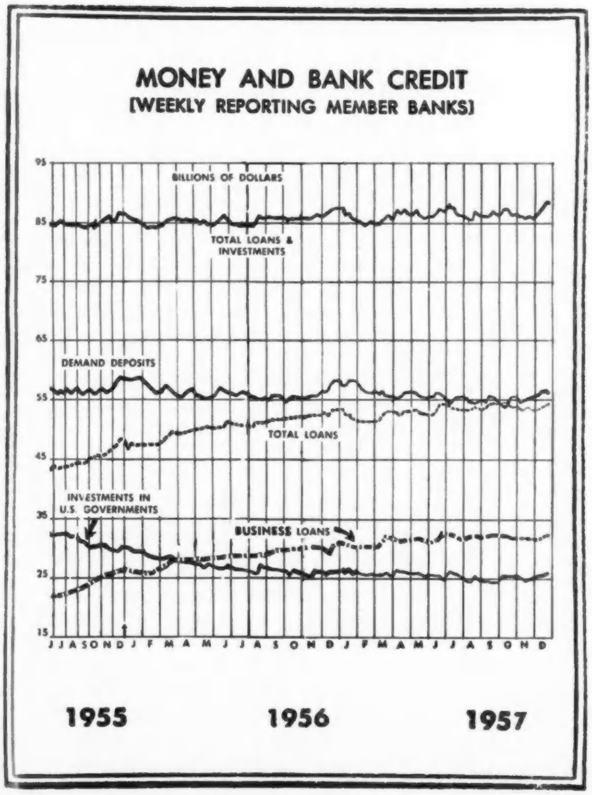
INDUSTRY — The trend remains downward in early 1958, with declines in machinery industries, consumer durables, primary metals and petroleum. Inventory retrenchment now is widespread in raw materials industries.

TRADE — Retail volume at Christmas was no better than satisfactory. Sales trend in early 1958; sluggish, with further declines in hard goods, and stability in soft goods. Retail business in for tough price competition, as consumer reluctance intensifies.

MONEY AND CREDIT — Virtually all interest rates are now well past their peaks and declining. The general forecast is for much lower rates emerging by mid-1958, as private demand for funds dries up and the Federal Reserve moves to position of active easing of supply.

COMMODITIES — Raw materials prices now thorougly deflated, and undercutting wholesale price level. Industrial prices for finished and semi-finished goods show weakening tendencies, for first time since 1954.





The lines are now forming for the great economic debate of 1858; namely, how much unemployment should set off how much counter-attack in the form of government action. It is already quite clear that this question, phrased though it may be in any of a variety of ways, underlies the 1958 outlook so completely that one can hardly discuss 1958 without reference to it.

As of year-end, unemployment was evidently in the neighborhood of 3.5 million, or something over 5% of the civilian labor force. Not so long ago, this level of unemployment would have been considered largely "frictional" — that is, unavoidable in a large, free country where no one is compelled to work and mobility is high. Today, however, after years of hyper-ful employment, anything over 3 million apparently becomes a cause of political unease. And 4 million approaches the politically intolerable level.

Given only seasonal changes in business between now and early March, unemployment is very likely to rise to approximately 4.3 million; if production volume continues to decline, it could exceed 4.5 million. And it is already clear that this prospect has begun to relax the purse-strings in Washington. The rate of issuance of defense contracts has obviously been accelerated; a liberal federal-state education program is in the legislative hopper; and talk of tax cuts has revived a little from the very moribund condition it fell into when the Sputniks first appeared.

There are two schools of thought on the course of fiscal policy under present conditions. One school warns that

(Please turn to following page)

Essential Statistics

THE MONTHLY TREND

	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Nov.	139	141	146
Durable Goods Mfr.	1947-'9-100	Nov.	153	154	165
Nondurable Goods Mfr.	1947-'9-100	Nov.	128	130	129
Mining	1947-'9-100	Nov.	124	127	130
RETAIL SALES*	$ Billions	Nov.	16.6	16.7	15.9
Durable Goods	$ Billions	Nov.	5.5	5.6	5.5
Nondurable Goods	$ Billions	Nov.	11.1	11.1	10.4
Dep't Store Sales	1947-'9-100	Nov.	126	120	131
MANUFACTURERS'					
New Orders—Total*	$ Billions	Nov.	26.2	26.2	30.0
Durable Goods	$ Billions	Nov.	12.3	12.2	15.8
Nondurable Goods	$ Billions	Nov.	14.1	13.9	14.2
Shipments*	$ Billions	Nov.	28.1	27.4	28.5
Durable Goods	$ Billions	Nov.	13.9	13.5	14.3
Nondurable Goods	$ Billions	Nov.	14.1	13.9	14.2
BUSINESS INVENTORIES, END MO.*	$ Billions	Oct.	91.0	91.3	87.8
Manufacturers'	$ Billions	Oct.	54.1	54.2	51.8
Wholesalers'	$ Billions	Oct.	12.8	12.8	12.7
Retailers'	$ Billions	Oct.	24.2	24.4	23.3
Dept. Store Stocks	1947-'9-100	Oct.	143	143	142
CONSTRUCTION TOTAL	$ Billions	Nov.	4.1	4.5	4.0
Private	$ Billions	Nov.	3.0	3.1	2.9
Residential	$ Billions	Nov.	1.5	1.5	1.5
All Other	$ Billions	Nov.	1.5	1.6	1.4
Housing Starts*—a	Thousands	Nov.	1,010	1,000	1,027
Contract Awards, Residential—b	$ Millions	Nov.	930	1,165	900
All Other—b	$ Millions	Nov.	1,441	1,448	1,477
EMPLOYMENT					
Total Civilian	Millions	Nov.	64.9	66.0	65.3
Non-Farm	Millions	Nov.	52.8	53.1	53.0
Government	Millions	Nov.	7.5	7.5	7.3
Trade	Millions	Nov.	11.8	11.7	11.7
Factory	Millions	Nov.	12.7	12.9	13.4
Hours Worked	Hours	Nov.	39.2	39.5	40.5
Hourly Earnings	Dollars	Nov.	2.10	2.09	2.03
Weekly Earnings	Dollars	Nov.	82.32	82.56	82.22
PERSONAL INCOME*	$ Billions	Nov.	345	346	335
Wages & Salaries	$ Billions	Nov.	239	240	233
Proprietors' Incomes	$ Billions	Nov.	51	51	51
Interest & Dividends	$ Billions	Nov.	32	32	30
Transfer Payments	$ Billions	Nov.	22	22	19
Farm Income	$ Billions	Nov.	15	15	16
CONSUMER PRICES	1947-'9-100	Nov.	121.6	121.1	117.8
Food	1947-'9-100	Nov.	116.0	116.4	112.9
Clothing	1947-'9-100	Nov.	107.9	107.7	107.0
Housing	1947-'9-100	Nov.	126.8	126.6	123.0
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Nov.	105.9	106.5	107.0
Bank Debits*—g	$ Billions	Nov.	78.6	81.7	78.8
Business Loans Outstanding—c	$ Billions	Nov.	31.5	31.8	30.4
Instalment Credit Extended*	$ Billions	Nov.	3.6	3.5	3.5
Instalment Credit Repaid*	$ Billions	Nov.	3.4	3.4	3.2
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Nov.	4.8	3.1	4.8
Budget Expenditures	$ Billions	Nov.	5.8	6.5	5.7
Defense Expenditures	$ Billions	Nov.	3.4	3.6	3.5
Surplus (Def) cum from 7/1	$ Billions	Nov.	(6.9)	(5.9)	(5.4)

PRESENT POSITION AND OUTLOOK

premature action against unemployment can be extremely costly, and build the base for further rounds of inflation in 1959 and 1960. The other school urges that delay would be politically fatal, or that, at the least, it would greatly multiply the eventual cost by allowing recession to get a firm grip on general business conditions. Perhaps more than the business figures themselves, the course of this debate is well worth watching.

* * *

INVENTORY POLICY—is now one of the essential yardsticks by which to measure the course of the present recession.

Since mid-1957, production rates across a broad range of industry have deteriorated sharply. In most of these industries, inventories did not appear to be excessive before the decline in output began, and inventory itself can hardly be called a cause of the decline. Nevertheless, once operating rates start down, what looks like balanced inventory can begin to look very heavy indeed, and curtailments of production are now being directed, at least in some measure, at curbing or reducing shelf-stocks.

The question is, whether such a reduction is taking place, and if so, at what rate. In the 1954 recession, net change in inventory swung very sharply from accumulation to liquidation in the space of six months; by early 1954, inventory was draining out of the business system at close to a $5-billion-a-year rate. In other words, production was cut below the level of demand; or, to say it still another way, demand held fairly firm as output declined.

If the same circumstances develop in early 1958, and inventory begins to run off rapidly, the outlook for recovery by late in the year will be considerably improved. **As of now, inventories are in a belated downturn, after rising until well past mid-year. They still have some way to go before they get into line with the drop in sales.**

* * *

EMPLOYMENT TRENDS—This time it's a little different. In 1954, as production employment sagged under the impact of recession, employment in non-manufacturing industries held firm (in fact, it averaged as high in 1954 as in 1953). Currently, however, fairly sizeable declines are now occurring in several non-manufacturing industries—mining, construction, trade, transportation, among others. Hours worked in trade and construction are also running below a year ago (they

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1957 III Quarter	1957 II Quarter	1957 Quarter	1956 III Quarter
GROSS NATIONAL PRODUCT	439.0	434.3	429.1	416.7
Personal Consumption	283.6	278.9	276.7	268.6
Private Domestic Invest.	65.5	65.0	62.7	65.5
Net Foreign Investment	3.2	3.5	4.1	2.0
Government Purchases	86.7	86.9	85.6	80.6
Federal	50.6	51.1	50.3	47.2
State & Local	36.1	35.8	35.3	33.0
PERSONAL INCOME	346.5	342.4	337.7	328.7
Tax & Nontax Payments	43.6	42.9	42.2	39.8
Disposable Income	302.9	299.5	295.5	288.8
Consumption Expenditures	283.6	278.9	276.7	268.6
Personal Saving—d	19.3	20.6	18.9	20.3
CORPORATE PRE-TAX PROFITS*		42.0	43.9	40.8
Corporate Taxes		27.4	22.4	20.8
Corporate Net Profit		20.5	21.5	20.0
Dividend Payments		12.5	12.1	12.1
Retained Earnings		8.0	9.1	7.9
PLANT & EQUIPMENT OUTLAYS	37.8	37.0	36.9	35.9

THE WEEKLY TREND

	Unit	Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Dec. 28	279.9	281.9	294.0
MWS Index—per capita*	1935-'9-100	Dec. 28	211.2	212.6	226.4
Steel Production	% of Capacity	Jan. 4	59.0	53.4	97.3
Auto and Truck Production	Thousands	Jan. 4	94	96	109
Paperboard Production	Thousand Tons	Dec. 21	291	289	280
Paperboard New Orders	Thousand Tons	Dec. 21	206	254	208
Electric Power Output*	1947-'49-100	Dec. 28	224.1	224.8	222.7
Freight Carloadings	Thousand Cars	Dec. 28	410	590	488
Engineering Constr. Awards	$ Millions	Jan. 2	259	274	324
Department Store Sales	1947-'9-100	Dec. 28	147	274	112
Demand Deposits—c	$ Billions	Dec. 24	56.2	56.7	58.2
Business Failures	Number	Dec. 28	166	276	174

PRESENT POSITION AND OUTLOOK

are down sharply, of course, in manufacturing industries). **The result shows up in the trend of personal incomes; the "labor income" component of personal income has been declining since September.**

* * *

EXPORTS AND IMPORTS—According to the latest figures, American exports have slipped back to the rate prevailing in the fall of 1956, prior to the sudden burst of foreign shipments accompanying the Suez crisis. But imports are also at least as high as they were in the fall of 1956, and the export surplus (the excess of exports over imports) is back down to a post-Suez normal; one of the major stimulants available to the American economy in early 1957 is thus not present in early 1958.

* * *

CAUTIOUS CUSTOMERS—In 1957, consumers apparently added only about $1.8 billion to their short-term debt outstanding. In 1956, the net addition was about $3.2 billion, and in 1955 about $6.4 billion. The repayment rate on instalment debt alone is now close to $40 billion a year—which suggests that it's a good time for caution.

*—Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d) Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1957-'58 Range High	1957-'58 Range Low	1957 Dec. 27	1958 Jan. 3
300 Combined Average	346.6	270.4	271.5	285.3
4 Agricultural Implements	282.4	181.9	181.9	198.3
3 Air Cond. ('53 Cl.—100)	122.8	82.7	86.1	88.7
9 Aircraft ('27 Cl.—100)	1388.8	882.6	982.0	1051.0
7 Airlines ('27 Cl.—100)	1022.5	581.5	591.5	638.8
4 Aluminum ('53 Cl.—100)	464.5	253.4	253.4	266.1
6 Amusements	172.6	119.0	119.0	125.0
8 Automobile Accessories	384.4	284.7	284.7	301.8
6 Automobiles	54.3	38.1	38.1	41.9
4 Baking ('26 Cl.—100)	29.7	26.3	27.9	28.5
4 Business Machines	1285.3	863.7	863.7	907.0
6 Chemicals	652.3	496.7	514.6	535.2
5 Coal Mining	25.1	16.8	17.5	18.6
4 Communications	106.0	83.1	84.0	86.5
9 Construction	126.8	100.7	104.4	108.6
7 Containers	799.9	656.5	686.7	707.3
7 Copper Mining	307.6	179.7	182.8	191.9
2 Dairy Products	115.6	103.8	114.5	115.6H
6 Department Stores	89.2	75.1	75.1	78.9
5 Drugs-Eth. ('53 Cl.—100)	259.2	175.2	233.6	231.3
6 Elec. Eqp. ('53 Cl.—100)	244.4	183.3	190.1	201.5
2 Finance Companies	584.5	525.0	557.6	568.8
6 Food Brands	280.2	239.8	250.5	255.5
3 Food Stores	188.9	153.8	182.2	184.0

(Nov. 14, 1936 Cl.—100)	1957-'58 Range High	1957-'58 Range Low	1957 Dec. 27	1958 Jan. 3
100 High Priced Stocks	236.9	185.8	187.1	192.7
100 Low Priced Stocks	415.9	311.7	311.7	332.8
5 Gold Mining	762.2	515.0	515.0	520.2
4 Investment Trusts	184.5	137.5	137.5	145.8
3 Liquor ('27 Cl.—100)	1094.5	855.7	895.5	931.3
8 Machinery	523.4	338.6	343.8	364.4
3 Mail Order	174.6	135.2	135.2	143.3
4 Meat Packing	142.6	103.5	110.4	123.6
5 Metal Fabr. ('53 Cl.—100)	198.3	131.6	135.4	143.5
9 Metals, Miscellaneous	420.9	263.1	263.1	278.9
4 Paper	1060.1	789.9	841.8	858.6
22 Petroleum	914.4	642.6	642.6	661.9
21 Public Utilities	263.6	236.5	256.3	258.9
7 Railroad Equipment	91.4	54.8	54.8	59.2
20 Railroads	72.7	41.7	41.7	44.6
3 Soft Drinks	509.8	432.7	436.9	445.6
12 Steel & Iron	393.0	235.8	239.7	258.9
4 Sugar	116.9	96.9	98.8	103.7
2 Sulphur	926.7	521.2	538.0	559.5
10 Television ('27 Cl.—100)	36.0	27.2	27.2	28.8
5 Textiles	149.9	96.7	98.1	107.9
3 Tires & Rubber	197.6	152.8	154.7	160.9
5 Tobacco	110.9	87.0	106.6	110.9
2 Variety Stores	298.8	219.5	219.5	239.3
17 Unclassif'd ('49 Cl.—100)	168.9	137.2	137.2	145.4

H—New High for 1957-1958

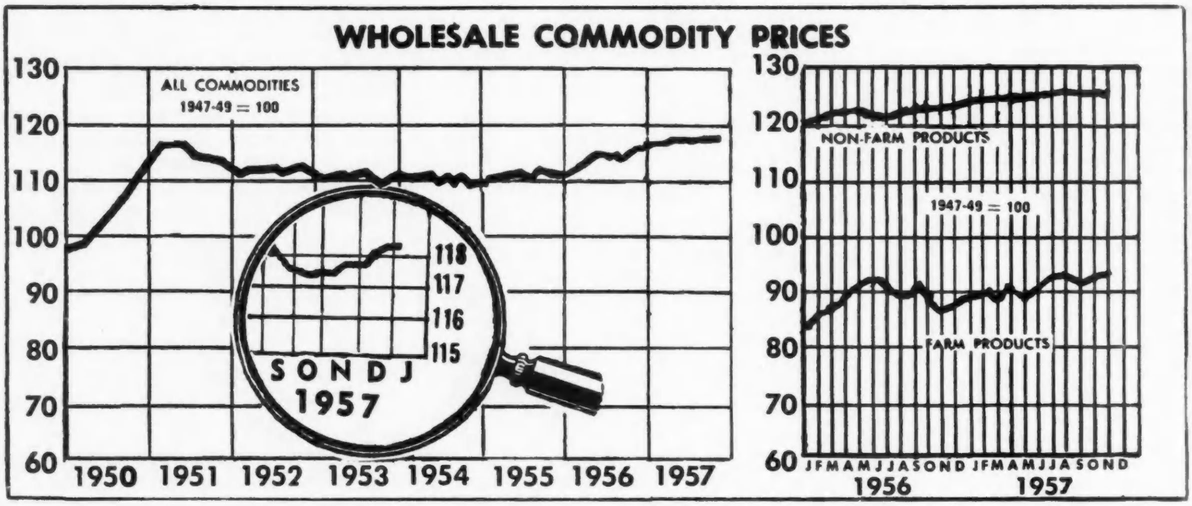
Trend of Commodities

SPOT MARKETS — Sensitive commodities were slightly higher going into the new year and the Bureau of Labor Statistics' daily index of 22 such commodities rose 0.4% in the two weeks ending January 3. The index, however, still remains in the narrow range it has been tracing since early October. In the latest two week period, food prices again provided the main impetus for advance, with a gain of 0.9% for this group, while raw industrial materials lost 0.1%.

Meanwhile the broad spectrum of wholesale commodity prices have remained steady but an advance in food prices raised the BLS comprehensive weekly price index to a peak of 118.4 on December 31, from 118.2 on December 17. With farm prices now declining, foods may follow suit in coming weeks.

FUTURES MARKETS — Commodity futures were largely devoid of wide fluctuations in the two ending January 3, although wheat and cocoa managed sizeable moves, the former on the upside, while the latter declined.

New crop July wheat added two cents in the two weeks ending January 3, to close at 189⅛. At the same time, old crop May wheat rose one cent to 213¾. The big spread between the two is attributable to several factors. One is the lower support level for the 1958 crop ($1.78 per bushel on the farm versus $1.90 in 1957). Another is the outlook for a bigger harvest this year, with the USDA forecasting a 200 million bushel increase in winter wheat production. The outlook for new wheat may still change greatly however, depending on the weather and on attempts to raise the support level.



BLS PRICE INDEXES 1947-49—100	Date	Latest Date	2 Wks. Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Dec. 31	118.4	118.2	116.3	60.2
Farm Products	Dec. 31	93.1	92.7	88.9	51.0
Non-Farm Products	Dec. 31	125.8	125.8	124.7	67.0
22 Basic Commodities	Jan. 3	84.8	84.5	92.5	53.0
9 Foods	Jan. 3	85.6	84.8	83.5	46.5
13 Raw Ind'l. Materials	Jan. 3	84.1	84.2	99.1	58.3
5 Metals	Jan. 3	86.7	86.5	122.6	54.6
4 Textiles	Jan. 3	78.2	78.5	85.5	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS
1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

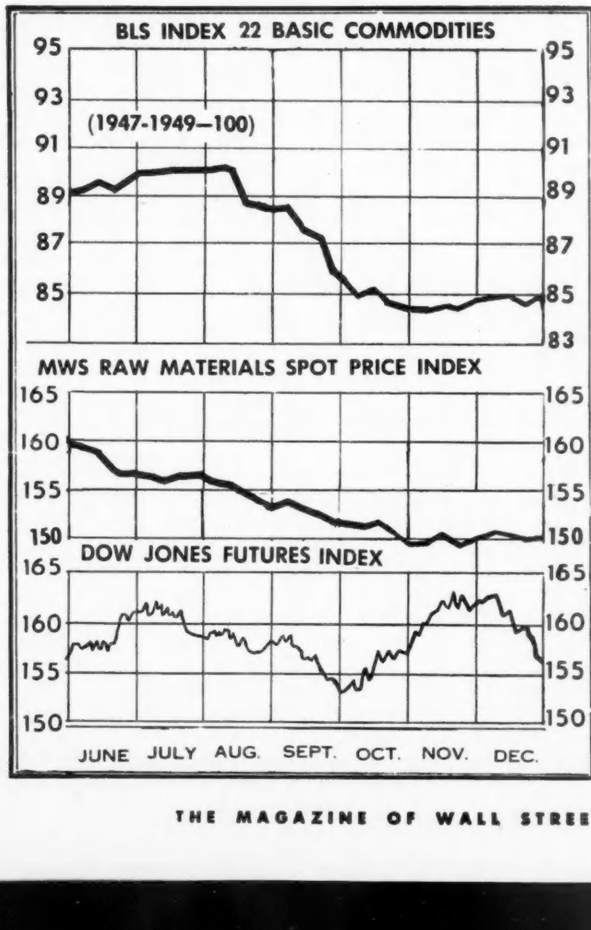
	1957-8	1956	1953	1951	1945	1941
High of Year	166.3	169.8	162.2	215.4	98.9	85.7
Low of Year	149.5	163.1	147.9	176.4	96.7	74.3
Close of Year		165.5	152.1	180.8	98.5	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES

AVERAGE 1924-1926—100

	1957-8	1956	1953	1951	1945	1941
High of Year	163.4	166.7	166.5	214.5	106.4	84.6
Low of Year	153.8	163.1	147.9	176.4	96.7	74.3
Close of Year		162.7	166.8	189.4	105.9	84.1



INDIVIDUAL PRICE MOVEMENTS IN 1957 AMONG THE 300 STOCKS IN THE MAGAZINE OF WALL STREET'S COMBINED INDEX

STOCKS SHOWING ADVANCES*

	1957 High	1957 Low	1957 Last	Increase in Points	Percentage Advance
Abbott Laboratories	51¾	37¼	47¼	+ 8⅝	+22%
American Cyanamid	48¼	35¼	43⅞	4⅛	10
American Gas & Elec.	39⅝	29⅞	39⅜	2⅛	5
American Tobacco	84¼	68⅛	76⅞	3½	4
Borden Co.	63⅜	51¾	61¾	4¾	8
Central & South West	43⅛	34⅝	41⅛	6¼	17
C.I.T. Financial	47	39⅝	46¼	4⅞	11
Corn Products	34⅝	28	34¼	4⅝	15
Eastman Kodak	115	81¾	98⅞	11⅛	12
General Dynamics	68⅝	46¾	59⅝	2	3
General Electric	72⅜	52⅜	61½	1¼	2
General Foods	50¼	40	50¼	6¾	15
Kroger Co.	66½	47	65	16¼	33
Lorillard (P.)	34	15⅝	32¾	17⅜	112
Merck & Co.	44½	29⅛	42¼	11	35
National Biscuit	42⅝	35	42	7	20
National Gypsum	46	35⅛	42	4⅜	11
Pfizer (Chas.) & Co.	65½	42¾	55⅛	5⅝	12
Procter & Gamble	57	44⅜	56⅝	5⅞	11
Reynolds (R. J.) Tob. "B"	66¼	52⅛	65	10¼	19
Southern California Edison	51¾	44⅞	49¾	4¼	9
Standard Brands	42⅞	37⅜	40½	2⅝	6
Texas Co.	76½	54⅜	62⅜	2½	4
Westinghouse Electric	68⅝	52⅜	63½	6	10
Zenith Radio	140	91¼	129	25	24

*Adjusted for stock dividends and stock splits.

STOCKS SHOWING DECLINES*

	1957 High	1957 Low	1957 Last	Decline in Points	Percentage Decline
Admiral Corp.	14⅞	6½	6⅝	— 6⅛	—48%
Allegheny Ludlum Steel	65⅜	28⅜	30⅛	33	52
Allied Chemical	98¾	68½	72⅜	24¾	25
Allied Stores	47⅞	35	35¾	7⅝	17
Allis Chalmers	36¼	20⅞	23	11⅞	35
Aluminium Ltd.	53⅛	27½	28⅝	11⅜	28
Aluminum Co. of Amer.	102	59¾	60	32⅛	34
American Airlines	24⅛	14	14⅛	9¼	39
American Mach. & Foundry	43¾	29⅛	32½	4⅞	13
American Rad. & S. S.	18⅛	10¼	11⅛	6	35
American Steel Fdry.	47⅜	27¼	27⅝	18⅛	39
American Tel. & Tel.	179⅞	160	167½	3⅞	2
American Viscose	44⅝	25	25½	9⅝	27
Anaconda	72⅞	39¼	40⅛	31⅞	44
Armco Steel	65½	39⅝	43⅛	22⅜	34
Armour & Co.	16⅝	10⅜	12⅛	4	25
Associated Dry Goods	34	27⅜	29	2¾	8
Atchison Top. & S. F.	27	16¾	17	9¼	35
Atlantic Refining	57⅜	36½	37⅝	6¾	15
Atlas Corp.	11¾	6⅝	6½	3½	35
Babcock & Wilcox	46⅞	29	31½	14⅞	32
Baltimore & Ohio R. R.	58⅝	22⅛	23⅞	21½	47
Bendix Aviation	66¾	42	44½	18	28
Bestwall Gypsum	54¼	30¼	34¼	20	37
Bethlehem Steel	50⅝	33⅝	36⅜	14¼	29
Blaw-Knox	43⅞	21¼	23¼	21	47
Boeing Airplane	61⅛	29	37⅞	23⅝	38
Bucyrus Erie	52¾	24	24¾	26½	51
Carrier Corp.	65¼	31⅛	32⅛	25¼	43
Caterpillar Tractor	99½	55⅛	58½	31¼	34
Celanese Corp.	17⅞	10⅞	11½	3¼	22
Certain-teed Products	11⅜	8	9	1⅜	18
Chesapeake & Ohio	89⅞	46¾	48¼	17½	26
Chicago R. I. & Pac.	37¾	19⅛	19⅝	16	44
Chrysler	82¼	52¼	52¾	17¼	24
Cities Service Co.	71	47⅜	49⅜	18⅛	26

STOCKS SHOWING DECLINES*—*continued*

	1957 High	1957 Low	1957 Last	Decline in Points	Percentage Decline
Commercial Solvents	19½	9⅞	10	— 7⅜	—42%
Crown Zellerbach	58½	40⅛	45⅝	7⅝	14
Curtiss-Wright	47⅜	23¾	24	22⅛	47
Douglas Aircraft	91	50⅝	70⅛	18⅝	21
Du Pont	206	160¾	176⅜	16⅜	8
Eastern Air Lines	51¾	27	29⅛	20⅝	41
Electric Auto-Lite	40⅜	24½	25⅛	7½	22
Electric Storage Battery	35¼	25½	26	7	21
Erie R. R.	20⅜	6½	6½	13⅛	66
Ford Motor	59⅝	35⅞	37⅛	17	31
General Motors	47½	33⅛	33½	10½	23
Gimbel Bros.	28¾	20⅝	21⅜	4⅛	16
Goodrich, B. F.	79¾	57¼	66¾	7	9
Great Nor. Rwy.	47¾	29½	30	14¾	32
Gulf Oil	152	105½	107¼	16⅝	13
Illinois Central	63⅜	26¾	28	34¼	55
Inland Steel	99½	69	73¼	25	25
International Harvester	38¾	25⅝	26⅝	11⅞	31
International Nickel	115⅜	66⅜	70¼	35½	34
International Paper	109½	82½	86¼	18¾	18
International Tel. & Tel.	37¾	25¾	29⅜	1⅜	4
Johns-Manville	52¼	34¼	37⅞	11⅛	22
Kennecott Copper	128½	77½	78	49⅝	38
Lockheed Aircraft	57⅛	26	38⅜	18⅝	32
Loews	22	11¼	13¼	7	35
Magnavox	44	28⅛	30¼	5¾	16
Montgomery Ward & Co.	40¼	27¼	27½	10¾	27
New York Central	36⅝	13½	13⅞	19½	59
Northern Pacific	49¾	32⅛	32¾	6⅝	17
Otis Elevator	49½	38¾	40¾	3¼	7
Owens Illinois Glass	66⅝	50¾	59⅞	2¾	4
Pacific Gas & Elec.	51½	43¾	47¾	1¾	3
Pan American Airways	19⅛	12⅛	12¾	6	31
Pennsylvania R. R.	22½	11⅛	11⅜	9⅞	47
Phelps Dodge	63⅛	37⅝	39⅝	24½	38
Phillips Petroleum	53¼	35⅜	36⅝	16⅝	31
Pullman	66½	42¼	42⅜	21	32
Pure Oil	48⅞	29¾	30	13⅞	31
Radio Corp. of Amer.	40	27	30¼	5⅛	14
Republic Aviation	32¾	13	16⅛	14¼	47
Republic Steel	59¾	37	40¼	19¼	32
Reynolds Metals	65¼	32⅝	33⅜	26¾	44
Royal Dutch	60⅜	37⅜	38¾	5¼	12
St. Joseph Lead	46½	22	22⅜	16	41
St. Regis Paper	48¼	23½	26¼	20¼	43
Seaboard Air Line	36	20	21⅝	13⅜	38
Sears Roebuck	29⅝	24⅛	25¼	3⅜	11
Shell Oil	93	64	68	22	24
Socony Mobil Oil	65⅜	45⅛	47½	7½	14
Southern Pacific	45⅞	33	34	10⅞	24
Sperry Rand	26⅛	17⅝	18⅛	4⅝	20
Standard Oil of Indiana	62¼	35½	35⅞	26¼	42
Standard Oil of N. J.	68½	47⅝	49⅞	8⅞	15
Swift & Co.	42½	26¾	29¾	8½	22
Sylvania Electric Prod.	46¼	29¼	30⅜	13½	30
Union Carbide	124½	90	95	20¾	18
Union Pacific	31¾	24	24½	5¾	19
United Aircraft	90¼	48	52¾	37	41
United Fruit	47⅝	33⅜	35⅛	9¼	21
U.S. Steel	73½	48¼	51⅜	22⅛	30
Vanadium Corp.	50½	25	27¼	22¾	45
Warner Bros. Pictures	28⅞	16½	17	11¼	40
White Motor	53⅝	34¾	39	7¾	17
Worthington Corp.	68½	45⅛	46⅝	9⅞	17
Youngstown Sheet & Tube	123½	66½	67½	55½	45

*—Adjusted for stock dividends and stock splits.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. The service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities at* reasonable intervals.**
3. **No inquiry will be answered which does not enclose *stamped, self-addressed envelope.***
4. **No inquiry will be answered which is mailed in our postpaid reply envelope.**
5. **Special rates upon request for those requiring additional service.**

Dresser Industries

"Will you please give me some detailed information on Dresser Industries? I am particularly interested in knowing its fields of operation and its earning record." *E.G., Elmira, N. Y.*

Dresser Industries, Inc., leading supplier of equipment and technical services for the oil, gas and chemical industries, reported net earnings of $20,600,000 on sales of $274 million for the fiscal year ended October 31, 1957. These results, which are preliminary and subject to final audit, represent increases of 19% over net earnings of $17,259,000 on sales of $230,300,000 for the prior year. Based upon the 4,478,440 shares outstanding as of October 31, 1957, net earnings per share for 1957 amounted to $4.60 by comparison with $3.97 a year ago.

According to the chairman of the board, the "increases in sales and earnings reported for the current year are particularly gratifying because they occurred at a time when certain of Dresser's principal markets actually declined. The fact that sales and earnings did increase is attributable to the broad diversification which the company has enjoyed within the various operating segments of the oil and gas industries. The company also constructs steel buildings, radio and TV towers. In 1955, Dresser Industries acquired Lane-Wells Co., a supplier of oil field services, Southwestern Industrial Electronics Co., Canadian Industrial Minerals Ltd. and Gulberson Inc. was acquired in 1956.

Dresser recently announced termination of merger negotiations with the Gardner-Denver Co. However, Dresser intends to pursue its diversification efforts through other means. Dresser stated that the previously announced intention to increase the annual dividend rate from $1.80 to $2.00 a share will in no way be affected by failure to consumate this latest merger. The last quarterly dividend of 45 cents per share was paid December 16, 1957.

Canada Dry Ginger Ale

"I am a subscriber to your magazine and would appreciate receiving late data on Canada Dry Ginger Ale." *L.M., Indianapolis, Indiana*

Canada Dry Ginger Ale is one of the leading beverage companies and its product line includes soft drinks, mixers, and alcoholic beverages and this enables it to meet all popular demands.

For the fiscal year ended September 30, 1957, net sales were $86,037,538, and 11% increase over the previous year's $77,563,586 sales. Net income before taxes rose to $6,956,249, compared with $5,703,107 in the preceding year. After taxes, the net income was $3,563,337, a 15% gain over last year's figure of $3,102,387. After preferred stock dividends, the net was equivalent to $1.73 per common share, a record high, compared with $1.51 in the preceding year.

The gains in the company's operations were attributed to improved pricing, national prosperity, and favorable summer weather.

Operations in the U. S. were highlighted by a 40% gain in sales of "king-size" flavor beverages, and a 25% rise in dietetic beverage sales. Both are relatively recent addition to the Canada Dry line. Case sales of ginger ale and club soda, of which the company is the leading U.S. producer, also increased.

Foreign franchise operations through Canada Dry International also reached new highs, aided by the opening of licensed plants in five additional countries. The current list of 73 plants in 46 countries has been the result of a policy of "planned' consistent and sound growth."

The company's wine and spirits department had its most successful year to date. Total case sales of alcoholic beverages increased 20%, with appreciably larger increases reported for the cordials, bourbins, gin and vodka marketed under the Canada Dry trademark. The gains were attributed to an expanded sales and advertising effort, and the doubling of this division's sales staff during the year.

While competitive conditions will intensify in both the carbonated and alcoholic beverage industries, Canada Dry plans to widen its distribution in both fields and will increase its promotional efforts.

Dividends in 1957 totalled $1.00 per share, the same as paid in 1956.

Emerson Electric Manufacturing Company

"In renewing my subscription for the

(*Please turn to page* 552)

THIS FREE WAY OF LIFE STRENGTHENS THE AMERICAS

A new concept is sweeping the Western Hemisphere . . . *Interdependence between the Americas!* Men of goodwill are eagerly seeking new opportunities to bring all Republics into a Living Circle of trade and communication. Working together they are establishing a sound multi-crop economy, developing wasteland into rich farms to supply both local and world markets. Scientific farming, modern machinery, power and transportation are aiding the workers to produce more abundantly, while better housing, schools and hospitals enrich and dignify their lives.

The vital crops that flow to Northern markets earn dollars for manufactures: tractors, refrigerators, telephones, railroad equipment . . . hard goods that flow south to increase every country's potential. These enlarge employment and local government revenues—raise the whole standard of living. This is the free way of life in action . . . the combined effort of friendly peoples, that strengthens the Americas and guards against communist infiltration.

United Fruit Company has been serving the Americas usefully for 58 years—reclaiming wasteland, stamping out disease, developing human skills, helping by research, new techniques and transportation, to increase the production and sale of bananas, sugar and other crops, and expediting communications.

United Fruit Company

80 Federal Street, Boston 10, Mass.

Keeping Abreast of Corporate Developments

Associates Investment Co. has announced a further decrease of $\frac{1}{8}\%$ in the rate paid for its commercial paper in all maturities except 5 to 29 days, which remains the same.

Robert L. Oare, the company's Board Chairman, said the new rate schedule would become effective January 8, 1958, as follows: 5 to 29 days–$2\frac{7}{8}\%$; 30 to 89 days–$3\frac{3}{8}\%$; 180 to 239 days–$3\frac{1}{2}\%$; and 240 to 270 days–$3\frac{5}{8}\%$.

United Aircraft Corp. through its Sikorsky Aircraft Division announced that a turbine-powered, improved helicopter known as the S-62 will probably make its first flight next spring. Patterned after the present S-55 seven-place, piston powered machine now flying on several helicopter lines and used in industry will carry 9 to 12 passengers and provide improved performance, according to the company.

The S-62 is powered with a General Electric J-58 gas turbine engine and has a watertight fuselage. Floats are also provided to steady the machine during water landings. It will have a pay load about 700 pounds greater than the S-55. Sikorsky Aircraft said the General Electric engines probably would be available commercially late in 1959 at a suitable price and indicated that commercial deliveries could start in 1960.

A twin-turbine version of the larger Sikorsky S-58 is being tried out with two General Electric T-58 engines. Test flights have been made, but no commercial plans have yet been announced in detail.

Thompson Products Inc. and its affiliate, Ramo-Wooldridge Corp. have formed Thompson-Ramo-Wooldridge Products, Inc., to develop and market industrial process control equipment.

The first major product of the firm will be the RW-300 digital control computer, one of which is being installed for the Texas Co. at Port Arthur, Texas, to control a polymerization unit.

The new firm will be located at the Ramo-Wooldridge Corp. facility in Los Angeles. Ramo-Wooldridge will develop and manufacture products for the new company at its Los Angeles plant and its newly-activated manufacturing facility in Denver.

The president of the latter company, Dr. D. E. Wooldridge, will be the president of the new corporation. He will also remain president of Ramo-Wooldridge.

Allis Chalmers Manufacturing Co. plans to build a 23,000 sq. ft. laboratory facility for engineering, development and research. The cost estimates of this facility have not been determined.

The laboratory, which will have a staff of about 200, will be used for scientific studies and for the design, construction and testing of models, mock-ups and prototypes of nuclear reactors and associated equipment, according to the company. Construction is expected to begin some time in 1958.

White Motor Co. stated it is increasing production at its Cleveland plant by about 20% effective January 7.

Workers are being recalled to meet the requirements of the increased schedules, according to J. E. Adams, vice president of manufacturing.

Mr. Adams stated a big increase in orders received during November and December made this move necessary, adding that the present order backlog of White Motors is the largest since last March.

The increase in business was attributed to a number of new truck models introduced by the company during the late fall which had met with good reception, according to Mr. Adams. Strengthening the company's diesel truck line to meet the growing dieselization trend in the highway transport industry has accounted for substantial part of the increase. New construction models have been introduced for the expanding needs of roadbuilding and other building industries.

The proposed merger of **Armco Steel Corp.** and **National Supply Co.** under which Armco Steel as the survivor company would issue 0.85 share of stock for each National Supply common stock, would appear to be a favorable development as it would further integrate Armco, which has recently acquired Union Wire Rope, a much smaller fabricating company.

National Supply makes pipe and other materials and services to the oil industry. Both companies should benefit by the (*Please turn to page* 552)

IE AILROAD GROW? *One of a series telling what Chesapeake and Ohio is doing to make this a bigger, better railroad.*

Things move fast on the C&O

n January 2, 1958—first business day of the ew Year—Chesapeake and Ohio published r its 90,000 shareowners a flash annual report f its 1957 operations. According to financial litors and security analysts, such fast reportg for a billion dollar corporation "makes orporate history".

his up-to-the-minute reporting is just one art of a continuing forward looking program give Chesapeake and Ohio shippers constently superior transportation service. In ddition to the modern coal classification facilies at Russell, Ky., a new fully automatic ard for merchandise freight goes into operaon there this month. This $5 million facility lectronically classifies an endless stream of erchandise freight cars with push-button peed and measured control.

hanks to the new Car Location Information enter—CLIC for short—shippers know that &O traffic offices can tell them the location f their shipment almost instantly.

he capacity of C&O's coal handling facilities t Toledo, which last year established an allme record of 18.7 million tons, will be substantially increased by the addition of a $7 million pier now under construction. And at C&O's Port of Newport News, Va., export coal dumping was up one-sixth over the year-before record. Also, at this port a just-completed bulk cargo pier, most modern on the Atlantic coast, unloads ships faster than a ton a second.

All these things mean that shipments move faster, more dependably, when you route them over the modern, efficient Chesapeake and Ohio. Chessie's railroad keeps growing and going!

ANOTHER GOOD YEAR FOR CHESSIE'S RAILROAD

Operating Revenues (millions)	1957	1956
Coal and coke	$ 233	$ 219
Merchandise	168	170
Other	31	30
Total operating revenues	$ 432	$ 419
Expenses, taxes, etc.—net	$ 364	$ 352
Net income	$ 68	$ 67
Earned per common share	$8.36	$8.28
Dividend paid per common share	$4.00	$3.625

Would you like a copy of C&O's "Flash Report" for 1957? Just write.

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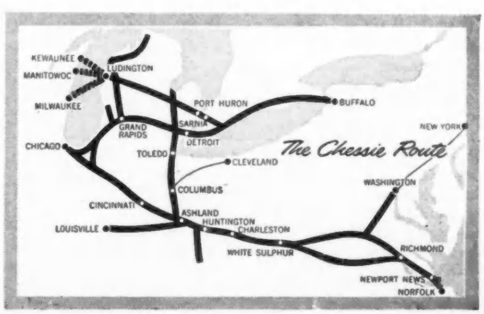

Prospects for Insurance Stocks in 1958

(*Continued from page* 523)

dividends out of net investment income until underwriting results again become profitable.

Reason for Low Insurance Company Earnings

The question which may well be asked at this point is – What are the principal causes of the present unprofitable nature of fire and casualty underwriting operations and how are they being met?

A brief summary of the main factors contributing to fire and casualty insurance company difficulties is presented following:

1. Inflation or a decrease in the purchasing power of the dollar has resulted in accelerating the rate of increase in loss claims. In other words, due to the lag between the development of a need for rate hikes and the granting of such increases, the fire and casualty insurance companies have had to pay today's higher losses with yesteryear's premium dollar. Higher fire losses and inflated jury awards on automobile liability cases are examples of how inflation has adversely affected loss ratios of fire and casualty companies.

2. A corollary of the above is the problem of under-insurance to value. In a period of rapidly rising price levels, there is a tendency for policyholders to have less than full coverage on the basis of replacement costs This results in less than the required amount of premiums to pay claims, especially where partial losses are involved The insurance companies have been conducting a campaign to achieve a better degree of insurance to value. It is impossible to know how much correction this campaign has achieved. However, past experience indicates that in time the imbalance is righted, particularly if there is some slowing down of inflationary forces.

3. A third problem of the fire and casualty companies in recent years has been the competition of direct writers of insurance, especially in the automobile lines, where a lower rate of commission paid by direct writers has made possible an under-cutting of the premium rates of the agency companies. This is essentially the same problem which the discount houses have presented to the department stores. It represents a change in merchandising methods to achieve greater economies of distribution. There is a general recognition that where automobile liability insurance has been made compulsory the agent does not earn a 25% commission. In addition to giving the direct writers room to under-cut rates, the high commission scales of the

(*Please turn to page* 540)

Data on Leading Fire and Casualty Insurance Company Stocks

	Market Data 1955 High	Market Data At 12/31/57	% Decline from 1955 High	Per Share 1956 Net Inv. Income	Per Share Present Div. Rate	% Yield	% Payout	Price Times Net Inv. Income	Estimated Liq. Value 6/30/57	Price as % of Liq. Value	Combined Loss & Expense Ratio First Nine Months 1957	Combined Loss & Expense Ratio First Nine Months 1956
Aetna Insurance	78	48	38%	$6.02	$2.60	5.4%	43%	7.8	$106.30[7]	45.1%	105.5%	103.3%
American Insurance	31¼[1]	20	36	1.98	1.30	6.5	65	10.0	35.23[7]	56.7	111.8	105.0
American Re-Insurance	32	23¾	25	2.57	1.30	5.4	50	9.2	42.27[7]	56.1	n.a.	96.6[10]
Boston Insurance	46	28½	38	2.58	1.80	6.3	69	11.0	55.31[7]	51.5	108.1	108.6[10]
Continental Casualty[6]	115¼[1]	73	36	2.91	1.40	1.9	48	25.0	65.40[7]	111.6	101.5	92.7
Continental Insurance	55	45⅞	16	3.09	2.00	4.3	64	14.8	77.80	58.8	107.8	102.7[10]
Federal Insurance	42¼	39	7	1.55	.90	2.3	58	25.1	39.70	98.0	95.4[11]	96.5[11]
Firemens Fund	77½	44	42	3.61	1.80	4.0	50	12.1	68.88[7]	63.8	104.3	108.2
General Reinsurance	58	47	19	4.76	2.00	4.2	42	9.8	63.06	74.6	99.7[11]	93.9[11]
Glens Falls Insurance	41¼	25½	39	2.47	1.00	3.9	40	10.3	50.46	49.7	105.0	103.9
Great American Insurance	46⅜	30½	34	3.51	1.50	4.9	42	8.6	68.13[7]	59.4	109.5	104.7
Hanover Fire Insurance	53	30	43	3.36	2.00	6.6	59	8.9	72.68	41.2	106.9[11]	106.8[11]
Hartford Fire Insurance	191[4]	128	33	7.78	3.00	2.3	38	16.4	148.86[7]	86.0	101.0	98.3
Home Insurance	56¼	34¾	38	3.54	2.00	5.7	57	9.8	79.19[7]	43.8	107.6	105.7
Insurance Company of North America	105⅞[1]	92	13	4.72	2.50	2.6	52	19.4	101.91	90.2	101.3	97.6
Maryland Casualty	45½	29	36	2.39	1.50	5.1	62	12.1	39.52	75.9	105.4[11]	100.9[11]
Massachusetts Bonding & Insurance	53¼	28½	47	3.86	1.60	5.6	41	7.3	46.55[8]	61.2	97.0	98.6
National Union Fire	52¾	27¼	48	3.77	2.00	7.3	53	7.2	62.60	43.5	107.4	108.2[10]
New Amsterdam	62½	37	40	6.42	1.80	4.8	28	5.7	91.11	40.6	106.5	104.0[10]
New Hampshire Fire	61	37	39	4.00	2.00	5.4	50	9.2	84.85[7]	43.6	99.9	103.3
Northern Insurance	87⅞[2]	73½	10	5.35	2.80	3.8	52	13.7	133.47	55.0	99.7	95.6[10]
Phoenix Insurance	96	54	43	5.81	3.00	5.5	51	9.2	137.82[7]	39.2	107.0	107.3
Providence Washington	31½	12½	60	2.47	......	....	....	5.0	32.09	39.0	106.9	109.6
Reliance Insurance[13]	59⅛	33	44	4.23	2.20	6.6	52	7.7	75.99[7]	43.3	107.5	103.4[10]
St. Paul Fire and Marine	56½[3]	44	22	2.06[3]	1.20	2.7	58	21.3	38.51[3 7]	114.2	102.3[11]	99.2[11]
Springfield Fire & Marine	69	36	47	4.30	2.00	5.5	46	8.3	101.05[7]	35.6	109.9	108.9
Standard Accident	82½	43	47	4.86	2.00	4.6	41	8.8	86.07	50.0	109.2	101.6
U.S. Fidelity & Guaranty	81⅝[5]	56	31	4.75	2.00	3.5	42	11.7	72.03	77.7	105.9	97.2
Westchester Fire	37¼	26	30	2.11	1.20	4.5	56	12.3	47.33[7]	54.9	103.2[11]	n.a.
Average of 29 Companies											105.1%[12]	102.4%[12]

1—Adjusted for 20% stock dividend paid in 1956.
2—Adjusted for 10% stock dividend paid in 1956.
3—Adjusted for 15% stock dividend paid in 1957.
4—Adjusted for 25% stock dividend paid in 1955.
5—Adjusted for 20% stock dividend paid in 1955.
6—Does not include consolidation of National Fire.
7—At December 31, 1956.
8—At September 30, 1957.
9—Adjusted for 25% stock dividend paid in 1956.
10—For full year 1956.
11—For first half.
12—For first nine months—15 companies.
13—Formerly Fire Association of Philadelphia.

(*Continued from page* 538)
agency companies have resulted in a drawing off by the direct writers of some of the more desirable business, leaving the agency companies with an adverse selection of risks.

4. Competition among the agency companies themselves has produced some unsound practices such as substantially broadened coverage without a corresponding increase in rates, over-liberal instalment payment privileges without adequate charges and bonus payments to agents for certain types of business. These practices represent a carry-over from the period of high profit margins when the desire for additional business led to unwarranted increases in acquisition expenses.

Solving the Problems

The process of correction or of finding solutions for the aforementioned problems has been slow, as has always been the case. However, there is concrete evidence that the necessary adjustments, some voluntary and some involuntary or practically automatic, are being made. These are summarized briefly as follows:

1 Rate increases have been applied for and granted with respect to both fire insurance and automobile lines in most states. Additional applications are being prepared where the need for further rate relief still exists. In the fire lines, the form which the rate adjustment has taken place is through reductions in term discounts. These reductions mean that the companies are receiving on new-term fire policies an average of about 8% more in premiums than previously received on the same business. On automobile lines, rate changes have been obtained by the National Bureau of Casualty Underwriters in 47 states and territories with an average increase in automobile liability rates of 20% and about 9% on automobile property damage insurance. In New York State a hearing is to be held early in January on an application for higher automobile insurance rates. If the application is not approved, the Bureau has indicated that relief will be sought in the courts. While these rate adjustments are slow to be reflected in earnings, their ultimate effect will be beneficial.

2. The fire and casualty companies are meeting the problem of competition from the direct writers by reducing their commission scales to agents. Several companies in New York have announced reductions in commissions on automobile lines from 25% to 20% and even to 15% in some areas. The tendency to reduce commissions has been noted in other states as well, notably Connecticut, California and Oklahoma. This is expected to spread with a consequent narrowing of the area in which direct writers can undercut, and a betterment of agency companies' expense ratios. There has also been a tendency on the part of the fire and casualty companies to tighten up their underwriting standards and to call a halt to unwarranted extra commissions and give-away programs.

3. A slowing down in inflationary pressures, for which the fire and casualty companies take no credit but for which they can be grateful, appears to be developing. To date there has been little reflection of this in automobile loss claims, but fire losses, as reported by the National Board of Fire Underwriters, were lower in both October and November of 1957 than they were in the corresponding months of 1956. This shift from steady increases in such losses to two consecutive months of reductions has made it possible for a number of fire and casualty insurance companies to show improved underwriting results in the last quarter of the year. Whether this better trend will continue into 1958 cannot be predicted with certainty, but there appear to be grounds for optimism.

4. Mergers among fire and casualty insurance companies in order to achieve benefits of greater size and diversification of fire and casualty business still appear to be very much in prospect. The largest combination last year, which was not a merger but an acquisition, was the take-over of Firemen's Insurance Company of Newark by Continental Insurance Company. The year 1957 was also characterized by the acquisition of life insurance company affiliates by fire and casualty insurance companies to achieve a new concept in multiple line underwriting. Among such asquisitions were Federal Insurance Company acquiring Colonial Life, St. Paul Fire and Marine taking over Western Life of Helena, Montana and Home Insurance getting Peoples Life Insurance Company of Frankfort, Indiana. It seems likely that 1958 will see more of these acquisitions or, in some cases, life insurance companies may acquire fire and casualty insurance companies.

Life Insurance Companies

With respect to life insurance companies, the industry figures for 1957 show another year of record sales and a good gain in the average interest rate earned on investments. Mortality experience was good but not as favorable as in 1956. This reflected the effects of the Asiatic flu epidemic which took place late in the year. Sales volume figures for the industry may be over-stated in part by the campaign for family package policies which include a large amount for the less profitable term insurance and by the large increase in group, including the gigantic Bell Telephone System business added during 1957.

Growth Prospects

Long term growth prospects for life insurance company stocks remain good, especially in the early 1960's when the war-baby population attains marriageble age and starts forming families. The life insurance business is benefitting also from the current higher interest rates which are covering interest assumptions on policies by a good margin. Further gains in mortality experiences are on the horizon as better medical care, new medicines and advanced surgical techniques are developed. The large plough-back of earnings of the life insurance companies will continue to make for capital appreciation. However, competition and the extent to which the favorable elements of this group of stocks have been recognized and discounted in the market place may militate against as sensational an appreciation record for life insurance stocks as was established in the last ten years. Furthermore, Congressional action will be required to replace the now-expired tax law relating to life insurance companies. It is believed that the old law which is based on net investment earnings will be renewed, possibly with some modifications. However, there will be uncertainty until this matter is settled. END

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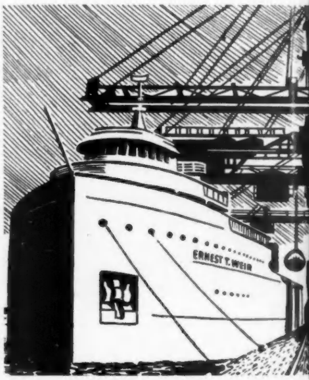

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and coke ovens through to fin
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a wide range of hot-rolled and
rolled sheets and plates, as w
the highly versatile family of
low-alloy, high-strength steels.

The Bank Stocks Today Can They Meet the Challenge of Rising Costs?

(*Continued from page* 515)

growth, while investment return expands in declining years. These truisms, so to speak, are of the utmost importance in the banks' well-being over the years and are applicable in all periods except those of severe recession.

It seems quite clear now that the nation's general business activity is leveling off. Thus partly because of a lag in the demand for credit, in other words to attempt to stimulate business, the Federal Reserve discount rate was reduced from 3½% to 3% in the closing months of last year. The diminished demand for money was clearly evidenced in the operations of the New York City banks which experienced lower loan volume in periods when in past years loans expanded noticeably. Loan volume lagged during the third quarter of 1957, the first such decline registered since the third quarter of 1954. Loans outstanding of the New York City banks at the end of September last year were 6% above a year earlier, however. There are signs, now, that this downtrend in loan volume will not get out of hand, and as of mid-December, loan volume of the leading New York City banks stood better than $200 million above the beginning of the year.

But as observed previously, the well-being of the banks depends not only on their loan position. For example, the amazing recovery of the bond market in recent weeks has placed many of the well-managed banking institutions in the position of showing some healthy book profits in their bond portfolios which could always be cashed in; it is doubtful, however, that such action is in store imminently. Earlier, as the market for senior securities declined, banks sold out their losses, using them as tax-offsets, reinvesting the proceeds in other issues. But in any event, the leading New York City banks seem confident of their ability to hold up their loan volume. In fact earnings from interest on loans should expand further as the old loans on the boks mature and are replaced at the prevailing higher interest rates. In this respect, it is emphasized that interest income of the banks is dependent on the solvency of business rather than on its prosperity.

But while the basic economic factors of our banks—particularly the New York City banks with their wide-ranging relationships—are so eminently favorable, their stocks have not been immune to the pressures resulting from the sharp market decline of recent weeks, and at year-end these shares had in fact settled to just about their lowest price levels of the year. Bank stock prices have failed to reflect rising earnings. During the long bull market, investor attention was focused on the blue-chip industrials, and more recently the sale of new shares by such institutions as the First National City Bank and the Chemical Corn Exchange last year to raise additional capital served to indirectly depress the entire bank stock list as subscription accounts were sold out in the general market decline.

Bank Operations Since World War II

A healthy banking system requires good earnings, and of course, banks need satisfactory earnings in order to obtain adequate capital funds, to pay sufficient return to stockholders and savers, and to obtain as well as to retain competent personnel.

In the years following World War II, gross earnings of the nation's banks have advanced importantly along with rising expenses and taxes, which have served to limit the proportion of earnings carried down to net profits. The rise in gross earnings has been largely attributable to the changed liquidity and capital positions of the banks in this period, and also to the rising trend of interest rates. The most important change in the banks' asset position has been a shift from government securities into risk assets, largely loans. In the middle of 1956, for example, government securities represented some 71% of total bank earning assets, while loans and non-federal paper accounted for but 29%; governmen

securities have now been reduced to roundly 33%, with risk assets rising to about 67%. With respect to interest rates, the average bank rate on business loans has doubled since 1946.

Costs, both operating and non-operating, have, however, increased right along with gross earnings. Bank payrolls, which equal some half of total costs, have pushed steadily higher. Interest payments to depositors have similarly climbed, results being clearly visible in last year's statements of the West Coast banks. All told, wages, interest payments and general operating expenses have risen more than 150% since 1946. Non-operating expenses, too, have pushed merrily along. Income tax payments have risen noticeably over the years, accounting for an increasingly large proportion of total profits.

All-in-all, 1958 looks like another good year for the nation's banks, such as the New York City institutions—which did so well in 1957. And the longer term view, too, looks bright for these institutions, providing that they can control the burgeoning operating expenses and find new sources of earnings. In the coming years, it seems clear that our continuing economic growth will result in an expansion of bank credit. Also, a further rise in the proportion of loans to total assets seems in store for the banks; the ability to thus expand their loans would be boosted by a reduction of member bank legal reserve requirements. Finally, technological progress and indeed further management advances should help to effectively control operating expenses, perhaps the major problem for the banking industry in coming years.

END

Out of the Frying Pan... Where Diversification Hasn't Paid Off

(*Continued from page* 518)

sales, accounting and other overhead expenditures. **Tracerlab**, a small Massachusetts company, built up an interesting reputation in the field of radiation measurement and decided to purchase Kelletket Laboratories, an oldtime organization catering to hospitals. The theory was that Kelletket's sales personnel could take over the selling of radiation and isotope equipment. Unfortunately, the salesmen were not qualified to sell the advanced scientific devices, owing to a lack of scientific backgorund, and matters became worse when foreign competition invaded Kelleket's normal markets. The upshot was that total sales and earnings declined, additional funds had to be sought on emergency terms, and several of the top officers resigned. In retrospect, it appears that the theoretical savings of combining Tracerlab and Kelleket proved to be impractical.

Other Difficulties

Sometimes even vertical integration brings on special problems. **Consolidated Foods**, formerly Consolidated Grocers, bought up a host of food processing and packing companies. Investments were also made in retail food stores, among them the Piggly-Wiggly chain. This rapid build up of assets increased sales from $196 million in 1952 to $268 million in 1956. The various units of

the organization, however, are thinly spread over the entire United States, ranging from Maryland and Pennsylvania through Illinois, Wisconsin and Iowa to California, Nevada and Oregon. Net income has barely improved during this five year period, probably because of the rather tenuous and difficult coordination problem.

The moving picture theater business has suffered badly at the hand of television, and another blow was struck when a court consent decree brought about the sale of RKO's chain of cinema houses. **List Industries** was created to operate the theaters, and other chains, such as Cleveland Arcade and Bleury Investment Ltd. were added. An interesting and inadvertent acquisition was the Gera company, controlled by Cleveland Arcade, Gera in turn controls a textile finishing mill, an electronic research laboratory and a plant making synthetic fabrics—all of of which are fairly separate and distinct from the operation of moving pictures houses. During the past few years, List sales increased in accord with the acquisitions, but net income still represents no more than a modest percentage of sales. The chances are that the textile and electronics operations are not yet helping earnings.

The sale of companies for cash and other assets can improve the liquidity of the diversified corporation, as has been shwn by the several recent sales of properties owned by **Merritt, Chapman and Scott**. During the past few years, Shoup Voting Machine, Marion Power Shovel, the Osgood Company and Newport Steel have been sold off. Cash and working capital have improved, but debt has increased. At present, Merritt, Chapman and Scott is busy engaged in digesting its far-flung empire, comprising of shipbuilding, ship salvaging, building supplies, making highway trailers, paint and varnish, fertilizer and metals. Merritt, Chapman's sales have jumped rapidly during the past several years, but net worth and net income have increased only moderately in proportion. The current market valuation of the common stock is below the average price of the past seven years, a reflection of investor disappointment in the earnings trend of recent years.

Penn-Texas, formerly Pennsylvania Coal & Coke, has passed through a dismal and remorseful year. Just recently, a parade of Penn-Texas acquisitions have been sold off, including Industrial Brownhoist, Hallicrafters, Liberty Aircraft, and Bayway Terminal and Pratt and Whitney. The various lenders of money to Penn-Texas have apparently turned a cold shoulder, and the stock market decline has helped to topple the pyramid. Early in 1957, the stock sold at 13⅞, and the present quotation is at the 3 level. In 1955 and 1956, the stock sold as high as 22⅞. Problems were compounded when credit became tighter and business conditions affecting Penn-Texas' various companies worsened. A serious problem is involved in disposition of the Fairbanks-Morse stock. The Securities Exchange Commission has served a warning on the company.

Coal producers, like Pennsylvania Coal and Coke, in the act of turning into diversified companies, have not all suffered the same stings of defeat. **Philadelphia and Reading Corporation** still mines anthracite coal and sells a profitable volume to utility companies, and it has also enjoyed some success in the operation of Union Underwear and Acme Manufacturing Company (cowboy boots). The **Pittston Company** expanded further into the coal business by shifting from the Pennsylvania hard coal fields to the black diamonds of the Appalachians through Clinchfield Coal Company. In the meantime, the company has entered into the operation of petroleum terminals, oil and gas production, retail oil sales, and United States Trucking, which operates an armored car service. Pittston's record has been reasonably good, although the market price for the stock has suffered extensively during 1957. **Glen Alden Corporation** has sorrowfully withstood the continued decline in hard coal sales. Through the Mathes Company, Glen Alden entered into the manufacturer of heat pumps and air conditioners and through Ward La France into the making of fire and other special trucks. These acquisitions have not thus far proven conclusive in terms of stemming the tide of decreasing coal sales, and by way of commentary, the 1957 market price for the stock fell

from 14 to 8. However, Glen Alden's financial position is strong, and fewer losses are being sustained from the coal operations.

Over-Extension

A great many of the diversified companies have become overextended, perhaps through impatience or the fact that seemingly attractive bargains could be found among the companies offered for sale.

Textron during the postwar years assembled a large group of textile mills, including industry heavyweights like American Woolen Mills. Despite the fact that large numbers of looms had been discontinued throughout the nation, the industry has suffered from a chronic condition of oversupply. Hence, Textron elected to enter the diversification field by purchasing companies making pumps, saws, screws, cement, aluminum products, plywood, bathroom fixtures, polyethylene products, and many types of electronic components and assemblies. Sales for the year ending 1956 were $246 million, compared with $88 million in 1950. Net income, however, crawled from $3.1 million to $6.5 million, and working capital painfully increased by about double. Similar to others which diversified outside their regular lines, Textron found that new and difficult problems were added. Only a few operating economies could be achieved, outside of the liquidation of unprofitable properties and the utilization of modern business accounting practices, which are also available to most organizations. The company has pointed out, nevertheless, that some of the new acquisitions were more of a drain than an aid to overall earnings.

Guideposts and Observations

Diversification is being practiced with greater or lesser regularity by a majority of American industrial corporations. Vertical diversifications so far appears to have proven successful where the primary aim was to utilize existing raw materials, by-products and markets. It seems logical, for example, that a railroad offer other services, such as pipelines, highway transportation and terminal storage facilities. Good progress is the expectation from the petroleum company which utilizes its good financial backing,

technical skill and abundance of raw materials to enter plastics, special fertilizers, upgraded compounds of hydrocarbon derivites and similar departures from the sale of oil, gasoline and natural gas. The chances are that a machine tool maker can strengthen his competitive position by the purchase of companies making products which will fill out his machine tool line. The container company which diversifies by offering plastic and metal in addition to paper containers will probably enhance its market penetration, which should ultimately produce higher sales and earnings.

The large company which purchases small organizations engaged in research, engineering, atomics and scientific endeavors may do so with the prior knowledge that the acquired company will not produce earnings for a number of years. However, the information and prestige derived from the advanced work may pay dividends in other forms, and, in the meantime, the large company can easily absorb the cash drain.

The small and weak company which diversifies may compound its own difficulties. To finance research, modernization and sales efforts, the small company may lag behind its competitors because it does not have sufficient funds to achieve the integration and subsequent build up of the acquired company quickly and easily. When business conditions become competitive and earnings decline, the company may be hard put to afford the additional cost of interest and amortization on debt. This situation has brought about the premature sale of properties and divisions on several occasions recently, sometimes at a sizeable capital loss.

Overextension and becoming too thinly spread is another problem common to the diversified company. When some or all of the divisions enter a period of declining sales, heavy overhead expenses create a mounting burden. Plants which are geographically unrelated, and products which have little economic correlation may exert excessive demands upon management. Integration of these companies may prove extremely difficult, and if a period of bad business interferes in the meantime, valuable time and

money may be irretrievably lost. If the price of the acquired company was cheap, this in itself suggests that the market position, manufacturing efficiency, and financial position was basically weak to begin with. Hence, during competitive times, sales and earnings may suffer to a worse degree than those of the major producers.

Reversing Diversification Trend

It is interesting that a number of recent merger proposals have been called off. Dresser Industries wanted to purchase Gardner-Denver for an exchange of stock, which would have brought diversification into an extremely successful line of mining and excavating machinery and supplies. At the last moment, however, the merger was called off, probably because of divergent philosophies on management organization. Since it was difficult to ascertain values and arrive at a mutually satisfactory price, Underwood and National Cash Register have abandoned merger talks.

It is even more significant that an increasing number of companies and divisions are being sold off. Penn-Texas and Bellanca have had to sell off properties to satisfy the claims of creditors. Bridgeport Brass recently sold its Aerosol business, after determining that it might be better to accept a satisfactory payment for the company and to concentrate on metal manufacturing. American Machine & Foundry sold its Turbo Division to Sundstrand and is also believed to be cutting down on its work in nuclear reactors. Borg-Warner recently sold off a gear plant in Detroit to Massey-Harris-Ferguson. Remington Arms sold its half interest in Rem-Cru Titanium to Crucible Steel Company. Owens-Illinois recently sold its interest in Plax Corporation (plastics) to Monsanto. Eversharp Incorporated, a maker of safety razors and blades, sold off Climax Engine, which makes gasoline power units to Waukesha Engine Company. Ford Motor Company has been selling timber lands, dating from the days when station wagons used wooden sides.

Republic Steel Company disposed of its chain making operation by selling a plant and equipment to the Campbell Chain Company. Sinclair Oil Company decided to discontinue a railroad tank car fleet, which was sold to a specialist in this field, Union Tank Car Company. Westinghouse recently announced that Howard Industries had purchased the Universal Motor Division. Several other companies during the past several months have sold off plants or have discontinued products, such as Union Carbide's termination of polyester resin production.

Perhaps this indicates that fewer companies are interested in diversification for diversification's sake. There appears to be an undercurrent of sorting out of products, plants, divisions and subsidiary and affiliated companies which are alien to the primary objectives of the parent organization. By the same token, specialized manufacturers are acquiring properties which tie in closely or at least relatively closely with their regular product lines.

The prevailing unsatisfactory experience with full diversification appears to have caused a momentary abatement, at least, in the indiscriminate purchase of corporate odds and ends. Too often during the past several years, it appears that haphazard diversification has pushed the company out of the frying pan into the fire. END

1958 . . . Economic and Political Trends in Individual Countries Around the World

(*Continued from page* 513)

may exploit Indonesia's economic chaos and embark on a wholesale campaign of expropriation that would devour American property.

The value of these assets is conservatively estimated at $250 million. Most of this is invested in oil and rubber projects on the island of Sumatra where the animosity toward foreign business has not yet reached the virulent proportions attained on the main and more populous island of Java.. But there is no certainty that they will not be swept away in the economic upheaval that is bound to come. Nor is the possibility of a Communist coup to be discounted, although the army is strong enough to resist such an attempt.

The true nature of the catastrophe that may shatter Indonesia can be seen in the fact that the country already is bankrupt. Her foreign exchange reserves have fallen below $170 million. To U. S. exporters this means that their normal markets of about $140 million annually may become mere memory. While many of the nation's outlying islands are carrying on foreign trade independently of the central Government, the risks of such business will discourage U. S. exporters and importers alike. Moreover, such independent action will further fragmentize Indonesia and possibly lead to a famine on Java that would consolidate the Communist position there. It may also extend their influence to the other islands.

The shortage of rice and other goods already is acute, mainly as the result of a breakdown in shipping between the republic's 3,000 islands. The exodus of Dutch owners, managers and technicians will hobble the sugar, rubber, tobacco, tea, pepper and other plantations. Industrial and agricultural output will fall. Illegal exports of rubber, copra, tin and other important dollar earners will become the dominant manner of trade. Of necessity, these shipments will be limited and sporadic and will be constantly hampered by the collapse of the country's shipping facilities. The recent accord making Japanese ships available will attenuate but not eliminate the problem. Perhaps the only benefit that can be derived from the Indonesian debacle is the hope that it may serve as an object lesson to other nations, such as Guatemala, of the misery and violence lurking in Communism's cornucopia. END

1958 Prospects for Leading Industries

(*Continued from page* 505)

they have experienced over the past several years.

Essentially, the reason for the sudden reversal in industry fortunes has been the slowing down in capital expenditures and the mounting concern with cost-cutting throughout the economy. As a result, towards year end, thousands of industry workers were

laid off while finished goods inventories were brought in line with reasonable sales expectation.

In 1958, however, the major producers may see a new upturn in business, mostly from government orders. Heavy expenditures for missiles means huge outlays for computing devices, and this has become the forte of the larger office equipment makers. IBM, Sperry-Rand and National Cash Register should move ahead this year, but the smaller companies will not fare as well, for the cutback in typewriter and other office equipment buying may lead to a shrinkage of business and lower earnings.

FARM EQUIPMENT – The nation's farm equipment makers are looking forward to a better year in 1958 and a continuation of the pick-up in farm equipment orders that belatedly began last year. However, the proposed reduction in crop support and farm aid may change the picture.

Currently, farm income is at good levels. Sectionally, the southeast is the brightest marketing spot for the industry at present. Years of share-cropping and small farm operation are now giving way to corporate farms and contract farming – both of which stimulate demand for equipment.

Shortages of beef and other livestock are stimulating sales of automatic feeding devices; land reclamation is proceeding at a rapid pace increasing the need for tractors; and in general there is growing recognition that the big farms must fully mechanize if they are to survive.

With these factors superimposed on a normal replacement market of close to 300,000 tractors a year, the industry's hopes for a good year are not unfounded, but a severe recession would dampen enthusiasm quickly. Barring a major downturn, however, better earnings seem in prospect from equipment operations, but with the extensive diversification now characterizing such leaders as International Harvester and Allis-Chalmers, prospects for other industries will be important determinants of total earnings for the year.

RAILROAD EQUIPMENT—This is the year the rail equipment builders will learn whether their extensive post-war diversification is going to pay off.

Certainly equipment revenues are going to fall, in some cases precipitously, since deliveries are proceeding at a rate far in excess of incoming orders. In November, for example, the nation's rail carriers placed orders for 1,070 new cars compared to over 4,000 exactly a year earlier. When weighed against the present rate of over 7,000 deliveries a month, the effect on the industry's backlogs becomes apparent. As a matter of fact, by year end, unfilled orders had dropped to under 60,000, half of the previous year's total, and not all of that was in the form of firm commitments.

The one bright spot is the possibility that the Government may come to the rescue with a new Federal Agency empowered to buy up to $2 billion worth of rolling stock for the carriers. To date however, too little progress has been reported to envisage the "Symes" plan as a force in 1958.

The major equipment makers, such as General American Transportation and Union Tank Car, fortified by firm equipment rental contracts should show the best stability, but for the rest, 1958 will be a trying period.

TEXTILES – Each new year brings renewed hope that the textiles will break out of their long depression, but so far the industry continues to disappoint observers both within, and outside the fold.

What is most disturbing about the textile field is that it has undergone most of the painful changes that would ordinarily produce better results in time. Smaller companies have folded or been absorbed into larger ones. Major units have merged or left the industry almost entirely; hundreds of plants have been permanently shut down in an effort to cut back capacity; and still the industry's basic problems remain.

Part of the answer of course lies in the steady flow of cheap imports into this country from Japan and other low labor cost countries; but by far the greater source of trouble is the amazing amount of synthetic fibres the industry can and does turn out, virtually saturating the market.

Demand for textile products continues at normal levels, but the high costs associated with excess capacity and the almost prohibitive cost of labor in this country lend little hope that a full scale turnaround in industry fortunes can materialize soon. —END

First Hand Report on Missile and Aircraft Expenditures

(*Continued from page* 507)

has promised Congressional leaders that the program will be pushed to completion. Recent cancellations of a nuclear engine contract to the Pratt & Whitney Division of **United Aircraft** had caused some concern in Congress.

General Electric has Air Force contracts for both a reactor and an engine for this program. The Air Force has asked both Lockheed and Convair to study possible airframe designs. However, the state of the development is such that it may be three or four years before a practical reactor and engine can be flight tested.

General Electric was successful in testing a one-fifth scale model of a reactor with light-weight shielding. They are now going ahead with a full size reactor. Pratt & Whitney was not so successful with its design of a small model reactor. However, the Atomic Energy Commission has recently granted them an additional $15 million for further research. This will be done at the Middletown, Conn., atomic research laboratory operated by Pratt & Whitney.

The type of nuclear engine to construct is far from settled. Much research and testing must be done to make sure of the final design. Also to be decided is what use is to be made of the atomic plane; for instance, whether to use it in extremely long range patrol planes; for airborne missile launchers; for early warning radar picket craft; or for unprecedentedly large cargo and transport planes.

Three Types of Atomic Aircraft Engines

The decision on the type of power plant to concentrate upon is also dependent upon the mission of the plane. There are three principal varieties under consideration. These are:

The turboprop closed cycle, in which helium gas is forced through the reactor and then used to drive turbines which spin the plane's propellors.

The turbojet open cycle, in which air from outside the plane is compressed and heated by nuclear fission, and then expelled in a jet stream to give the plane its forward push.

The turbojet closed cycle, in which air is heated by contact with a heat exchanger of liquid sodium rather than by direct contact with the atomic reactor.

Each system has its advantages and disadvantages and Pentagon planners are also giving consideration to weight saving against radiation-shielding before coming to a final decision.

Over $200 million annually has been spent on this nuclear aircraft project. Nearly one-half of this amount comes from the funds of the Atomic Energy Commission to pay for reactor research and development. The Air Force has given sizable contracts to both General Electric and Pratt & Whitney. Last fall in an economy wave the Pratt & Whitney contracts were cancelled.

Atomic Seaplane Planned

The Air Force is now reported to be considering renewing the contracts to Pratt & Whitney. The Navy has announced that it has been studying an atomic seaplane for long range patrolling. If Congress would be generous they are prepared to go ahead with this project. It would call for a turboprop closed cycle nuclear engine. Development of such a power plant would require four or five years and cost around $10 million.

Pratt & Whitney is very interested ~~in this engine~~ and wants a design contract. Boeing and Martin are interested ~~in the airframe~~ and hull of such a project.

If some evidence or even serious claims should be presented that the Soviets were ahead of us in nuclear aircraft progress, public opinion and Congress would quickly demand an expansion of our present atomic program. Such a demand could easily result in an annual expenditure of half a billion dollars. END

Investing in the Office Building Boom

(*Continued from page* 501)

investment has fully recovered the loss of confidence it suffered in the 1930's. It has elements of stability that are much in its favor but is not immune to the economic tides that affect general business. It is also a field where it is imprudent to generalize, for one property may do well when others do poorly. Good planning to begin with, which assures right timing and placing, and good management all the way, can make all the differences between a profitable and a losing investment.

The function of our office buildings is to house American business. Investment in office buildings, now close to $15 billion, is a measure of this industry's important place in the economic picture. END

Profit and Income

(*Continued from page* 525)

More Preferred Stocks

Opportunities for good return and moderate appreciation in preferred stocks have heretofore been discussed here. A number of sound issues, even though not of the highest grades, offer yields around or above 5%. Some additional selections follow: Atchison & Sante Fe $0.50 preferred at 9⅛, yielding over 5.4%; Helme $1.74 at 34, yielding 5.1%; Radio Corp. $3.50 at 70, yielding 5%; Lorillard $7 at 131, yielding 5.3%; and Pacific Lighting $4.40 at 86, yielding 5.1%. —END

Washington and the Securities Market

(*Continued from page* 495)

Also, as between the earlier situation and the present one, there are important, perhaps decisive differences: (1) business confidence was high then. It is less so now. (2) Remembering its 1953-1954 contribution to the subsequent inflation, the Reserve will ease credit more deliberately this time. (3) Measured by yield factors, the industrial stock average is much higher now than at any time in 1953 or the first half of 1954. Much will depend on defense spending in the months ahead and on possible shifts in investment sentiment—always difficult to predict. Our policy remains conservative.

—Monday, January 13.

Answers to Inquiries

(*Continued from page* 532)

7th year, please send me your Christmas offer of your new book "The Next Two Years" and please also inform me on recent operations of the Emerson Electric Manufacturing Co."

H.N., Springfield, Mass.

The Emerson Electric Manufacturing Co. of St. Louis, makers of electric fans; small motors, etc. had consolidated net earnings of $2,369,716 after all charges, for the fiscal year ended September 30, 1957, as compared with net earnings of $2,247,926 for the previous fiscal year.

Net earnings for the latest year included results of operations of the company's wholly owned subsidiary, Emerson-Pryne Co., from April 1, 1957 and a non-recurring refund of prior years Federal excess profit taxes in the amount of $240,525. Net earnings for the latest fiscal year exclusive of the tax fund, are the second highest in the history of the company.

Sales in the 1957 fiscal year were $65,341,252 compared with sales of $56,498,889 in the 1956 fiscal year. Latest fiscal year sales represented an increase of more than 15% over total sales for the previous year and was the highest sales volume of the company in the entire post-war period.

Consolidated earnings after taxes and after provision for dividends on the preferred stock amounted to $3.52 per share on the average of 654,600 shares of common stock outstanding during the fiscal year. This compares with earnings of $3.49 per share in the 1956 fiscal year on the average of 626,918 shares of common stock outstanding during that year after adjustment for the September 28, 1956 stock distribution.

Current quarterly dividend is 40 cents per share. —END

Keeping Abreast of Corporate Developments

(*Continued from page* 534)

merger, Armco would add about 50,000 tons a year to its steelmaking capacity and would have an assured outlet for about 700,000 tons a year of steel that National Supply has been fabricating into pipe and tubing. —END

The State of the Union

(*Continued from page* 498)

be well over this year's spending limits, the Congressmen were told. With careful attention to economy and postponement of unidentified civilian projects the impact need not be severe, the President assured as he promised a special message dealing with the related subjects of taxation and spending, plus the authorized debt ceiling—which he will recommend be raised.

The President's plea for united action by this country, the Soviet and other nations in the interest of peace reiterated many of the statements made by Mr. Eisenhower when he launched the Atoms-for-Peace effort. To this end he urged that any genuine disarmament proposition be carefully weighed. "But," he said, "a disarmament proposal to hold real promise, must at the minimum have one feature: reliable means to ensure compliance by all. It takes actions and demonstrated integrity on both sides to create and sustain confidence!"

Pointedly, Ike told Congress it is futile to condemn Federal spending and then insist on costly local projects that touch "one's own interest"; it makes no sense, he said, to spend additional billions on military strength to deter a potential danger, and then, by cutting aid and trade programs, let the world succumb to a present danger in economic disguise.

Departing from precedent, the President confined this year's Message to military affairs and security, and to the search for peace. This presages more special messages than in other years, when the whole range of legislative and administrative action was covered.

In the Budget Message the following week, the President spelled out more fully, some of the ideas touched on in the State of the Union address. As expected, he asked for $74 billion in proposing a barely balanced budget. At the same time, he disclosed that in the current fiscal year, the Government may operate at a $400 million deficit and suggested that the debt ceiling be temporarily lifted to allow the Government more leeway in financing its commitments.

In our next issue, we will carry a complete analysis of the new budget and its import for investors and business generally.

—END

As I See It!

(*Continued from page* 493)

for definite and drastic action to insure the democratic processes on the one hand, and, on the other, the Unions (operating as non-profit organizations) should be kept well within the limits of their needs, should be prevented from piling up huge funds which can be channeled into the defense program, and thereby help to stabilize our economy. Our National defense today demands that we all do our share. —END

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